

# ERP Acquisition Planning: A Critical Dimension for Making the Right Choice

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Organisations that invest in new ERP software packages are making a big commitment in terms of both time and money, especially given the complexity of such systems and the risk that their implementation will bring unforeseen problems. This paper looks at the process of planning in the acquisition of ERP systems, basing its findings in an extensive study of four organisations that have gone through the planning process. Six activities are identified and examined: project team formation, requirements definition, establishment of evaluation and selection criteria, marketplace analysis, choice of acquisition strategy, and anticipated acquisition issues. By planning the acquisition systematically and thoroughly, organisations can substantially increase the likelihood that they will identify ERP software and vendors that genuinely meet their needs.

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## Introduction

Enterprise Resource Planning (ERP) systems offer great promise to businesses wanting to consolidate and integrate the many elements that comprise business practice. Essentially, they are online, interactive information systems used for enterprise integration; they support cross-functional processes using a common database that can integrate across multiple functional areas by focusing on processes, rather than individual functions.<sup>1</sup> ERP systems consist of customisable software, which integrates the complete range of business processes and functions in order to present a holistic view of the business.<sup>2</sup> An ERP is defined as a suite of integrated software applications that link back-office and front-office operations and their internal and external supply chains. One typical description is of a ‘packaged business software system that enables a company to manage the efficient and effective use of resources by providing a total, integrated solution for the organisation information-processing needs’.<sup>3</sup> The architecture for ERP systems builds upon one database, one

application, and a unified interface across the entire enterprise.<sup>4</sup> As such, ERP has become the centre of the organisation application architecture - 'the enterprise backbone'.<sup>5</sup>

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It will be evident from the above description that these solutions are sophisticated, complex, comprehensive and diverse. They are also cost-effective, as an alternative to in-house development of ERP systems and a means of reducing internal development costs.<sup>6</sup>

Many organisations are using ERP systems to gain competitive advantage, by integrating their business functional areas and providing users with greater access to real-time information. On the other hand, some are becoming wary of ERP solutions because of the enormous amount of time and money needed to implement the systems and their high risk of failure. Certainly, implementation can be a challenging, time-consuming and expensive process that places tremendous demands on corporate time and resources.<sup>7</sup> Yet despite this fact, over the past years, thousands of companies have implemented ERP systems, because ERP is a key ingredient for gaining competitive advantage, streamlining operations and running a 'lean' manufacturing system.<sup>8</sup> The upshot is that some have successfully introduced ERP, while others have struggled.

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An ERP package can cost several thousands, hundreds of thousands or even millions of dollars. The acquisition of this type of software package is a high-expenditure activity likely to consume a significant portion of an organisation's budget.<sup>9</sup> It is also fraught with a high level of risk and uncertainty. Why? Because, first of all, if a wrong acquisition is made, it can adversely affect the organisation as a whole, in several different areas and on several different levels - even to the point of jeopardising its very existence. Many companies have enjoyed the benefits of ERP systems; but conversely many have also had to settle for minimal returns, complete abandonment of the system, or even bankruptcy.<sup>11</sup> After implementing SAP AG's SAP R/3 system, Volkswagen AG experienced trouble delivering spare parts to car dealers.<sup>12</sup> Sobeys Inc. and Hershey Food Corp. experienced similar processing problems, resulting in stock shortages, as a consequence of their SAP R/3 implementation.<sup>13</sup> Hershey suffered an earnings decrease of 18.6 per cent after the implementation of its ERP.<sup>14</sup> Second, in a study conducted by the Harvard Business School, '65 per cent of executives believe ERP systems have a moderate chance of hurting their business because of potential implementation problems'.<sup>15</sup> ERP implementations are said to be 'the single business initiative most likely to go wrong'.<sup>16</sup> Cases like these have sensitised the industry to the importance of understanding the problems that can arise and how best to overcome them.

This backdrop, in turn, creates a much more complex buying situation than do other types of organisational buying scenarios, because the needs and behaviours of the individuals involved (directly or indirectly) with the acquisition, as well as the complexity, type, special requirements etc of the software solution, must all be taken into consideration before a final selection can be made.<sup>17</sup> As such, planning activities play an important if not critical role in the acquisition of ERP software. In the past several years, a number of papers have been published addressing ERP issues; however, there has been limited research pertaining to ERP acquisition planning.<sup>18</sup> A review of the literature

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