

Agile in enterprise resource planning:

A myth no more

ERP transformations are never easy. Agile can help improve your results.

Enterprise resource planning (ERP) solutions are a fundamental asset for most large companies, yet ERP transformations remain time-consuming and complex. **An agile approach has the potential to dramatically streamline ERP projects**, but IT professionals have long believed agile to be incompatible with ERP.

Our experience in helping many organizations adopt agile practices in a wide variety of situations, however, has proved the opposite: that agile can successfully be applied to ERP programs, with quantifiably better results. The methodology simply has to be adapted to the unique requirements of these complex solutions.

Why ERP transformations remain important

Large ERP solutions have slipped to the bottom of IT management's agenda to make room for **trendier topics, such as digital, big data, machine learning, and cloud**. But the business benefits of ERP solutions—namely, **the enablement of seamless, end-to-end integration across functions and the process standardization across geographies and business units—make them a fundamental asset** for most large companies.

Why ERP transformations remain important

Moreover, **the next generation of ERP solutions**, such as Oracle Cloud and SAP S/4HANA, offer even more promising capabilities, both functionally and technologically. **Companies focusing on digital transformation or advanced-analytics programs are beginning to realize** that, to unlock the full potential of their investments, linking the new technologies to their ERP base is essential.

The challenges of ERP transformations

As fundamental as they are, **three-fourths of ERP transformation projects fail to stay on schedule or within budget**, and two-thirds have a negative return on investment. These are five main reasons.

Misaligned incentives



All parties **may not share the same objectives**

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Poor Project Management



Most organizations lack **experience in managing major IT projects** and multi-vendor programs.

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Lack of business-IT integration



ERP systems require complex discussions with the businesses on **operating models, data management and validation rights**.

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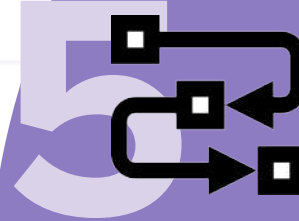
Missing focus on business value

Activities and **deliverables tend to drive ERP transformations.**

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Waterfall methodology



Most ERP projects are undertaken using a linear, sequential waterfall approach, **which delays the projects realization of value.**

1 First, **all parties may not share the same objectives.** For example, a system integrator may have the incentive to increase the program's scope and duration if it makes more revenue from a complex integration. **The company, meanwhile, wants to deliver the project and capture its value as soon as possible.**

2 Second, **most organizations lack experience in managing major IT projects and multi vendor programs.** They do not have enough skilled managers, have never set up rigorous governance for such programs, and **fail to understand the level of input needed from business sponsors.**

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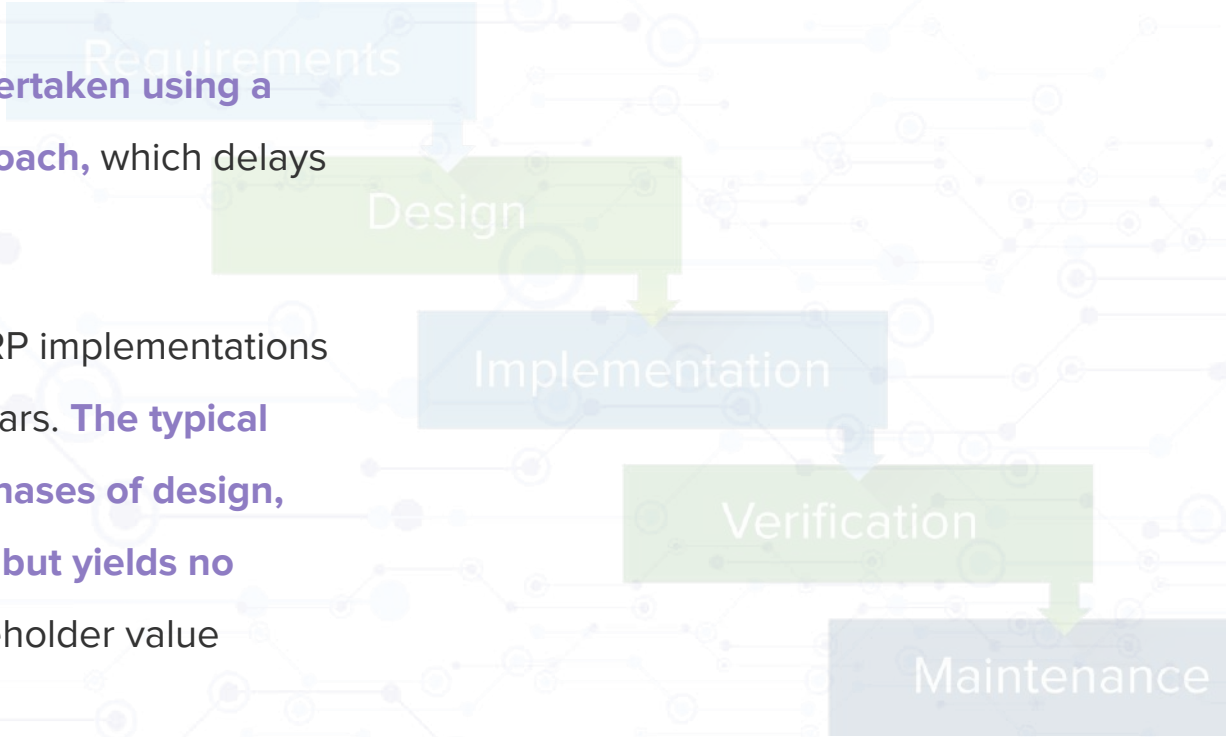
Next, **ERP systems cover a vast, integrated, functional scope and thus require complex discussions with the business on operating models, data management, and validation rights.** These decisions tend to come up mid-program and require executive-committee-level input based on information that is not yet available. **The project must often pause for these decisions to be made, slowing progress and even undermining the initiative's value.**

4 Fourth, **activities and deliverables tend to drive ERP transformations;** instead, the transformation should be **based on business value**, which must be quantified, documented, and monitored to drive the program.



Last, **5** most ERP projects are undertaken using a **linear, sequential waterfall approach**, which delays the project's realization of value.

These challenges often cause ERP implementations to drag on for five or even ten years. **The typical implementation involves long phases of design, specifications, and blueprinting but yields no measurable impact**—while shareholder value diminishes, day after day.



Misconceptions and truths about agile and ERP

The **myth that agile methodology cannot be applied to ERP implementations** is based on several misconceptions:

1 That an ERP implementation is too big and complex to be managed and delivered by small agile teams, meaning that highly integrated, intricate ERP requirements cannot be broken down into vertical user stories that can be developed and tested in the short sprints that define agile delivery;

2 That ERP is a standardized software, and that hence an agile approach—which is designed for constantly changing or unknown requirements—is not needed or applicable; and

3 That an ERP solution cannot be shown incrementally to end users, as they will not be able to perceive any value before it is fully built and integrated.

Benefits of adapting agile to ERP

Much of **agile's popularity is based on its results. Research shows that agile organizations have a 70 percent chance of being in the top quartile** of organizational health, the best indicator of long-term performance. Moreover, such companies simultaneously achieve greater customer centricity, faster time to market, higher revenue growth, lower costs, and a more engaged workforce.

Benefits of adapting agile to ERP

Specific to ERP implementation, **deploying ERP in an agile way—irrespective of the underlying technology—translates into a range of tangible and intangible benefits, including;**

Reduction of program cost by 10 percent, driven primarily by having to do less rework in the E2E testing and UAT phases

Increase in the program's value by 20 percent by giving the product owner enough visibility into the project's progress to focus on high-value items

Wider adoption of the solution by end users, as they are involved throughout the implementation

For more information the original article can be found at

<https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/agile-in-enterprise-resource-planning-a-myth-no-more>

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Our team is comprised of forward-thinking, experienced Subject Matter Experts (SMEs) and Technology Consultants with decades of business, industry, and regulatory experience.

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