# 5 COMMON CLOUD ERP MISTAKES

A comprehensive guide to avoiding the five most common cloud ERP software errors

## GUIDE HIGHLIGHTS

Cloud-specific advice on ROI and TCO calculations

A guide to selecting the right cloud service package

How to build a concrete cloud recovery plan

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# IGNORING IMPORTANT CLOUD ATTRIBUTES DURING SELECTION

Considering the purchase of any fully-integrated enterprise system can offer a daunting challenge. There are several critical elements that require more than just a passing understanding of how and why your company behaves the way it does. If you ignore any of these you run the risk of creating a 'doughnut hole' condition where any system appears to work just fine right up to the moment when 'that one' process or requirement goes missing at the wrong time.

This challenge is especially true of companies in the process of selecting cloud ERP systems. These systems operate on a perpetual processing basis, meaning that more often than not the active process chain running from inventory input to AP output processes and analyzes information all day, every day. Unfortunately, regardless of the list of known concerns, companies still get ERP selection wrong for a host of reasons. Be sure you consider these potential problem areas before they become cloud-based cautionary tales.

## SCALABILITY

The success of a cloud ERP implementation is highly dependent on how a particular company's need for data granularity evolves, and how quickly that company intends to enhance its operational planning year-over-year.

While an actual list of concerns is typically long and deep, at the end of the day nearly all elements generally relate to the strength or weakness of a company's active growth pattern. This means that if you have purchased a system that is not flexible enough to deal with regular operational expansion, at some point the company is going to hit the growth wall. This will usually be at the most inopportune moment in the business life cycle. Given that one of the benefits of cloud ERP is its inherent scalability, you can't afford to make errors in this department.

*"Enterprise systems are only as useful as their level of dependability, and this is particularly critical when it comes to organizations using cloud ERP"*

## SPEED

For small businesses using just one or two cloud-based ERP modules, concerns associated with the speed of data throughput is not typically seen to be a challenge. However, as a company grows, the constant need to evolve its process-chain beginning with the receipt of raw data leading to the

delivery of useful information becomes much more critical. In the same way that a cloud ERP system may not be flexible enough to accept overall growth quickly, the same can be said about the speed of overall data throughput from the cloud to the company and back.

## COMPLEXITY

All cloud-driven ERP systems can be seen as being complex; but there is complex, and then there is COMPLEX, depending on how, where, and when information must be delivered and managed by the corporate customer. If your business has selected cloud ERP that appears to be 'easy to use' (in other words, simplistic), it is likely that the system will fail to provide enough functionality as the constant transition from small business to mid to large Enterprise evolves downstream.

## DEPENDABILITY

Enterprise systems are only as useful as their level of dependability, and this is particularly critical when it comes to organizations using cloud ERP. The reason for this is simple; because of the generally deep knowledge-value provided by ERP and its operational tenets, companies tend to bank on the information provided by one or more implemented cloud ERP modules. However, if that company suddenly finds itself missing critical information in the event of cloud ERP downtime, the entire operational chain can be broken, leading to the loss of needed periodic revenue or worse.

# FAILURE TO CALCULATE TCO CORRECTLY

In the case of cloud ERP systems, a failure to completely understand Total Cost of Ownership (TCO) has pushed many a solid company into the solvency rubbish bin. If a company doesn't understand or pay attention to cost pressures involved in cloud ERP TCO, chances are that company is leaving money on the table; or worse losing money without realizing until it comes to calculating its end of year P/L.

Cloud ERP contract terms and conditions may include many less obvious financial costs which can be missed entirely in the din of larger enterprise finance issues. However, with the advent of cloud ERP, and its dependency on connectivity further execrated by affiliate management costs, the need to pay a monthly fee can become more than some organizations can bear. Consequently, we thought we'd take a look at the various cost categories involved in cloud ERP TCO that may be the cause of sleepless nights for your project manager.

*"'cost creep' is regularly ignored by managers yet more often than not ends up being the most important negative impact on a cloud ERP system's TCO"*

## DIRECT IMPACTS

Of all cloud ERP cost elements this category can be both the most obvious, and also the most troublesome due to the very fact of its position at the top of the cost food chain. Growth is endemic, and therefore introductions of additional systems costs over time tend to be assumed rather than calculated in detail simply because they are so...well...obvious.

If your cloud project is operating on the basis of a traditional End User License Agreement (EULA), managers often fail to take the time to read, and completely understand, the fine print embedded within a cloud-mounted contract agreement. Many will also avoid paying attention to periodic announcements from systems providers regarding expanding cost elements, particularly if an agreement has been in effect for some time. This means that TCO can go up without a manager ever acknowledging that an incremental increase has occurred until the system's TCO suddenly spikes quarterly, or God forbid, annually.

## INDIRECT IMPACTS

Another cloud ERP TCO category worth mentioning involves indirect, yet necessary, operational elements associated with supporting or enhancing the efficiency of cloud ERP. These are often neglected based on the premise that cloud ERP is a 'one-price-fits-all' service agreement.

Consider infrastructure costs as an example. Many managers fail to measure the cost of on-premise infrastructure enhancements such as extended wired or wireless structure build-outs, or expanded routing or gateway matrices when calculating TCO.

However, the question here should be a fairly simple one, do the aforementioned hard expansions relate specifically to an ERP expansion effort? If so, these kinds of hard costs must be applied to the ERP TOC whether they specifically relate to the cloud platform itself or not, just to ensure enterprise management understands where 'all' the money goes.

## AFFILIATED IMPACTS

In the same way that indirect systems costs can impact cloud ERP TOC, affiliate technical elements create the same type of financial effect. These costs can appear nearly anywhere within an overall infrastructure, including the cloud, its mounted SaaS components, right down to enterprise hardware elements or localized soft or middleware elements like the involvement of security or low-level utility systems. Again, if any of these cost items exist within the ERP project as a set of contiguous elements, these elements must be calculated as being intrinsic to overall cloud ERP TOC.

## THE WAGES OF COST CREEP

Perhaps the most pervasive of all TCO impacts, 'cost creep' is regularly ignored by managers yet more often than not ends up being the most important negative impact on a cloud ERP system's TCO. Part of the problem is that most incremental SaaS cost hikes are typically small, usually costing anywhere from $1 to $10 per periodic payment segment. However, over time the cost category's sheer lack of importance when compared with more weighty cost considerations can typically create a host of painful decision points for managers.

# NEGLECTING CLOUD ERP CONNECTIVITY

While on-premise systems require a degree of attention to issues of connectivity and available bandwidth, these elements are particularly critical to cloud ERP. This is because these systems are entirely dependent on external processing to get their work done. Each level of system growth requires a different approach to cloud ERP connectivity, and this often translates into bigger budget requirements as you move up the system growth ladder.

## PRE-LAUNCH & GO-LIVE PROCESSING

When dealing with pre-launch processing power, bandwidth requirements can be both minimized and only periodic. In this phase, the goal is primarily derived by the potential of overall capacity divided by the level of dependability, rather than sheer processing power driven by a requirement for constant ERP transaction handling.

All of these points require prudent ERP planning, supported by clear-eyed risk-management in order to ensure that a cloud ERP system keeps humming along; come rain or shine.

However, once the pre-launch phase is completed and the enterprise is prepared to go-live, enhanced bandwidth becomes a necessary evil. Unfortunately, many ERP project managers tend to forget this limiting factor, and should this element be neglected, ERP go-live performance will suffer accordingly. This planning failure can lead to budget overruns as well as breaking any support and training momentum, thereby creating additional difficulties downstream.

*"Each level of system growth requires a different approach to cloud ERP connectivity, and this often translates into bigger budget requirements as you move up the system growth ladder"*

## FORECASTING BANDWIDTH REQUIREMENTS

Once the enterprise has worked most, if not all, of the kinks out of the cloud ERP system, the matter of trimming operational bandwidth becomes important. Most connectivity contracts offer flat rate pricing of one kind or another, as long as stated performance quotas are maintained within established boundaries. However, should the enterprise fail to forecast its connectivity requirements accurately, overflow fees are typically significant, and can cost an enterprise considerably more than

previously expected.

This leads one to the measurement of multi-year bandwidth, which is another advantage derived by extended bandwidth contracts. Most, if not all, service providers offer significant discounts for accepting more than one fiscal year's worth of service at a time. One should be mindful of this potential by negotiating both base and extended or demand-based bandwidth on the basis of more than one business year at a time.

All of these points require prudent ERP planning, supported by clear-eyed risk-management in order to ensure that a cloud ERP system keeps humming along; come rain or shine. This means regular measurement and operational testing are necessary elements to any management approach, otherwise, a company's cloud ERP connectivity capabilities will be likely to cause sudden performance constraints that represent a rule rather than an exception.

# SELECTING AN ILL-FITTING SERVICE PACKAGE

Today's cloud ERP providers offer a range of service levels in order to ensure the launch, operation and maintenance of their system performs at the highest level. However, in the same way that issues of scale can play against difficulties associated with ERP implementations, problems based on cloud ERP service level can occur leading to lost revenue or unexpected costs of operation.

To help you understand today's typical cloud service level, here is a short primer on what is generally accepted in today's market.

### CLOUD ERP SERVICE PACKAGE OPTIONS

'Knowledge-only' agreements typically offer the following elements; business analysis, operational assessment, systems purchase research and evaluation, and end-to-end roadmap development. The next rung up on the ladder includes 'core integration' packages. Packages of this type include more technical, development-oriented or operational tasking such as end-to-end data mapping, enterprise platform identification, analysis and migration, operational implementation, enterprise rollout, module and affiliate systems integration, pre-launch testing and QA, defined support and maintenance and periodic upgrades.

Finally, once your cloud ERP implementation is up and running, enhanced service packages are typically offered. This group of tasks typically include elements such as provider hosting, tailored development, BPO analysis, big data/analytics, and mobility-derived integration.

In each case, cloud ERP scale and complexity plays a major part in a company's cost management and operational decision-making. If you get it wrong, well, you need to be prepared to get your checkbook out.

### THE IMPLICATIONS OF YOUR SERVICE PACKAGE DECISION

In the launch phase, if you have purchased a 'knowledge-only' cloud ERP service package, you must accept that the entire responsibility for an ERP system's viability will rest with your enterprise's IT setup. So, if one is running a small shop with limited technical resources, the cost of trying to avoid going beyond the paper analysis stage can demand more money downstream, rather than simply accepting the additional cost of a middle-level operational package at the outset.

In these middle-level cloud ERP service packages, the majority of all operational pre-launch and post-launch testing, and initiation elements are included. However, package costs will be relative to the depth of service. Once a system has matured and developed both its own dense data mass and operational character derived by daily use, the scalability of the system and service package will be critical.

If scalability becomes an issue, it may be useful, as well as cost-effective, to purchase an enhanced service package. These can cover the movement of an operational system from one hosted platform to another, the application of additional analysis, or enhancing a baseline system by developing custom code specific to one process or another.

*"If you have not considered these service packages in a linear fashion, all bets will be off, and significantly more money will be required to effect positive change than you might expect"*

## A WELL-UNDERSTOOD PLAN OF ACTION

In all cases, these opportunities begin with a well-understood plan of action typically based on a multi-year operational schedule, lest the enterprise lose overall technical momentum. The final stage of this planning should involve all that the enterprise and its cloud ERP provider have learned about how and why the company operates effectively, and, in this case, can quickly close the loop on a service decision.

At the end of the day, if you have selected the correct cloud ERP service package, the expansion of your ERP system 'should' be reasonably straightforward. However, if you have not put too much thought into it, all bets will be off, and significantly more money will be required to effect positive change than you might expect.

## FAILURE TO DEVELOP A RECOVERY PLAN

ERP failure recovery plans are just that; sets of tasks that turn a system around when something goes wrong. While there are templates available that are useful as baseline plans, each enterprise and each ERP implementation is different, so your own plan will require a fair degree of subjective thinking. Failure to develop a plan - or not taking enough care to create a suitably detailed one - can result in panic and lost revenues whilst you struggle to figure out what on earth to do.

When looking at what 'may' go wrong, it's useful to operate on the basis of preparedness driven by a worst case scenario first, and work backward:

### DEFINE THE THREAT

Define your worst ERP failure nightmare, i.e. the entire system has dropped offline, but production must continue to function; then step through the various tasks necessary to re-light, or reload data in order to cover production first. Then step back to ancillary processing like invoicing and accounting, then extend further into other administrative systems.

As I said, each enterprise is different, so perhaps, if this scenario occurred in your business, invoicing would be the crucial first step instead. Be critical of your thinking and make sure you make the right decision when prioritizing business functions, otherwise you'll be looking at the wrong thing at the wrong time.

*"Be critical of your thinking and make sure you make the right decision when prioritizing business functions"*

### CREATE A FAILURE TREE

As a practical matter, creating a recovery failure tree is essentially driven by the specifics defined in the previous section of this article. But in general, your business should follow these steps:

### DEFINE A COMMUNICATION PLAN

- List the people who must be contacted if a problem occurs
- Create instructions for responding to the problem based on resources associated with each affected impact area

- Create instructions regarding who will administer each part of the each recovery task/area

- Develop specific task checklists for every scenario

- Ensure that responsible managers or workers review each task/area, and sign off on each checklist as it is completed

## GRANULAR IS BETTER

In the case of most ERP failures requiring a recovery process, time is the enemy. Consequently, the aforementioned failure tree should be as detailed as possible ensuring that any/all impacted processes/systems/people are identified, and what your employees are supposed to do in the event.

## BUILD A PRACTICAL RESPONSE LIST

This section is really the heart of a recovery plan since the systems are unlikely to fix themselves without human interaction. Consequently, when it comes to stepping into the breach between an ERP systems meltdown, and safety, the best part of valor is to ensure everyone on the team is identified and notified. The same sentiment covered in the previous section, where granularity is king, applies here. If you 'think' an employee should be on the list, make sure by checking the response list twice, then review the list on a regular basis to ensure relevancy and accuracy.
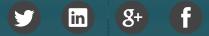
## FIGHT LIKE YOU TRAIN

The military offers a number of useful axioms that can be leveraged when in dire straits. One of my favorites is 'You Fight Like You Train,' meaning that you can learn a lot by repeatedly testing your recovery plan 'just in case.' Executing this kind of evolution offers at least two bits of highly practical knowledge.

Firstly, in testing the plan throughout one or more emergency scenarios, the ERP team will become desensitized to the deep nature of the task list, and if/when the balloon goes up, it will respond much more efficiently than it might be if it had never seen the worked through plan before.

Secondly, as my Southern descendants used to say, the team would also afford the ability to 'lose its scared' before the actual event, making for calm decision-making under tremendous pressure. I have used both of these elements in my own actual recovery experiences, and they work.

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