

ERP Contracts one pager

background

what is ERP?

ERP is Enterprise Resource Planning, a single software system that integrates various functions across an organisation, such as finance or HR.

- Benefits include integrated information and standardised processes.
- Software is supplied by companies such as SAP, Microsoft and Oracle, and the system is implemented by outside consultants.

what are the risks?

- As the ERP system touches so many parts of the business a system failure can be significant, with the system itself becoming a “single point of failure”.
- Historically, ERP implementations have a relatively high incidence of project failures, although this is reducing.
- An ERP implementation is complex, expensive and time consuming. Once committed it’s difficult to move to a different system (so there are issues with vendor capture).
- The implementation normally involves major change with staff learning new skills and work practices.
- There can be hidden and significant costs (see [addressing the costs](#) at right).

key issues

will the system be customised?

- An ERP package has standardised processes that your business may wish to customise. This can be risky as the software is complex and, with each software update (which you could be obliged to install), the customisations will need to be reworked.
- Customisation may also introduce bugs and errors that will not be warranted or supported.

addressing the costs

- Licence agreements are complex and can contain provisions that the vendor can use to “hook” additional license and support fees (eg, complex role descriptions and unexpected charges for affiliates, business partners and other systems).
- Potential “blow out” points include data cleansing, conversion and migration, training, customisation, change management and system integration.
- Ongoing costs (such as for support, maintenance and additional licences) should be locked down.

commitment to deliver

- Expect few remedies, warranties or “skin in the game” to initially be offered by the software vendor (there’s plenty of “gotchas” in the terms).
- Sometimes lateral solutions may be required to fill gaps where a multi-national just won’t move.
- Consider the extent to which the implementation partner can or should be responsible for the entire solution (check for integration between the software supplier and implementation partner contracts).
- Care is needed to avoid your initial requirements being inappropriately superseded by the extensive vendor documentation (such as the “blueprints”).
- There should be robust post implementation warranties and support along with ongoing support and maintenance for the underlying software.

your responsibilities

- The success of the project will be highly dependent on your involvement (eg, workshop participation, data cleansing etc).
- Should the supplier be obligated to “hand hold” throughout the project, providing all necessary guidance and assistance?
- Expect extensive obligations (and related assumptions) that will need to be tempered.

are you ready?

- Expect the project to steal “the best and the brightest” for extended periods.
- Your team will need to be thoroughly prepared to deal with multi-national software vendors and partners that are highly experienced in the ERP area and in commercial negotiations. You may have little leverage and so a strategic approach that focuses on the key issues will be essential.
- Knowing what vendors will negotiate on, and how far they will move, is valuable.

addressing the problems

- Are there clear and understood mechanisms in place to detect, avoid and manage problems as they arise (eg, testing regimes, contingency plans, remedial processes, escalation, “at risk” amounts etc)?
- Strong governance (with senior executive involvement) is essential.
- Top notch project management plays a critical part in project success.
- A phased implementation helps reduce risk.

Wigley+Company

PO Box 10842
Level 7/107 Customhouse Quay, Wellington
T +64(4) 472 3023 E info@wigleylaw.com

and in Auckland
T +64(9) 307 5957

www.wigleylaw.com