

Case: cisco systems, inc

Business, Industries



Enterprise systems appear to be a dream come true. These commercial software packages promise the seamless integration of all the information flowing through a company—financial and accounting information, human resource information, supply chain information, customer information. For managers who have struggled, at great expense and with great frustration, with incompatible information systems and inconsistent operating practices, the promise of an off-the-shelf solution to the problem of business integration is enticing.

It comes as no surprise, then, that companies have been beating paths to the doors of enterprise-system developers. The sales of the largest vendor, Germany's SAP, have soared from less than \$500 million in 1992 to approximately \$3.3 billion in 1997, making it the fastest-growing software company in the world. SAP's competitors, including such companies as Baan, Oracle, and PeopleSoft, have also seen rapid growth in demand for their packages. It is estimated that businesses around the world are now spending \$10 billion per year on enterprise systems—also commonly referred to as enterprise resource planning, or ERP, systems—and that figure probably doubles when you add in associated consulting expenditures.

While the rise of the Internet has received most of the media attention in recent years, the business world's embrace of enterprise systems may in fact be the most important development in the corporate use of information technology in the 1990s. But are enterprise systems living up to companies' expectations? The growing number of horror stories about failed or out-of-control projects should certainly give managers pause. FoxMeyer Drug argues that its system helped drive it into bankruptcy. Mobil Europe

spent hundreds of millions of dollars on its system only to abandon it when its merger partner objected. Dell Computer found that its system would not fit its new, decentralized management model. Applied Materials gave up on its system when it found itself overwhelmed by the organizational changes involved.

Dow Chemical spent seven years and close to half a billion dollars implementing a mainframe-based enterprise system; now it has decided to start over again on a client-server version. Some of the blame for such debacles lies with the enormous technical challenges of rolling out enterprise systems—these systems are profoundly complex pieces of software, and installing them requires large investments of money, time, and expertise. But the technical challenges, however great, are not the main reason enterprise systems fail. The biggest problems are business problems. Companies fail to reconcile the technological imperatives of the enterprise system with the business needs of the enterprise itself.

An enterprise system, by its very nature, imposes its own logic on a company's strategy, organization, and culture. (See the table "The Scope of an Enterprise System.") It pushes a company toward full integration even when a certain degree of business-unit segregation may be in its best interests. And it pushes a company toward generic processes even when customized processes may be a source of competitive advantage. If a company rushes to install an enterprise system without first having a clear understanding of the business implications, the dream of integration can quickly turn into a nightmare.

The logic of the system may conflict with the logic of the business, and either the implementation will fail, wasting vast sums of money and causing a great deal of disruption, or the system will weaken important sources of competitive advantage, hobbling the company.

The Scope of an Enterprise System

It is certainly true that enterprise systems can deliver great rewards, but the risks they carry are equally great. When considering and implementing an enterprise system, managers need to be careful that their enthusiasm about the benefits does not blind them to the hazards.

The Allure of Enterprise Systems

In order to understand the attraction of enterprise systems, as well as their potential dangers, you first need to understand the problem they're designed to solve: the fragmentation of information in large business organizations. Every big company collects, generates, and stores vast quantities of data. In most companies, though, the data are not kept in a single repository. Rather, the information is spread across dozens or even hundreds of separate computer systems, each housed in an individual function, business unit, region, factory, or office. Each of these so-called legacy systems may provide invaluable support for a particular business activity.

But in combination, they represent one of the heaviest drags on business productivity and performance now in existence. Maintaining many different computer systems leads to enormous costs—for storing and rationalizing redundant data, for rekeying and reformatting data from one system for use in another, for updating and debugging obsolete software code, for

programmingcommunicationlinks between systems to automate the transfer of data. But even more important than the direct costs are the indirect ones. If a company's sales and ordering systems cannot talk with its production-scheduling systems, then its manufacturing productivity and customer responsiveness suffer.

If its sales and marketing systems are incompatible with its financial-reporting systems, then management is left to make important decisions by instinct rather than according to a detailed understanding of product and customer profitability. To put it bluntly: if a company's systems are fragmented, its business is fragmented. Thomas H. Davenport is a professor at the Boston University School of Management in Boston, Massachusetts. His most recent book, *Working Knowledge: How Organizations Manage What They Know*, was published in 1997 by theHarvardBusiness School Press.

Assignment Questions

1. At the end of the case, Pete Solvik has a number of questions. Please think about these questions, and be prepared to give your answer: What factors had made the difference between success andfailureof the Cisco ERP project?

Answer:

1. The company was a startup company and it was easy to perform changes to its current business process 2. The company had huge growth rates as far as the revenues were concerned, so that company was no short of the funds required for the ERP Project. 3. The employees were very enthusiastic to work for the new project as they found it interesting from the otherwise

monotonous tasks. So the company could embark upon its intelligent employees for the success of the project.

4. The company enjoyed full support from the top management which was one of the major reasons for the success of the ERP project. The management was 100 % in favor of the project implementation. 5. The choice of Oracle as an implementation partner also helped in the success of the project because this project was being driven by manufacturing and Oracle was better than the other vendors as far as the manufacturing capabilities were concerned. 6. The choice of KPMG as the integration partner also helped a lot in turning the project into a big success. It was committed and dependable and was keenly interested in this project and it saw an opportunity to really build a business around putting in these applications.

Where had the ERP team been “ smart”? Answer: The things that Cisco managers did right are discussed below: 1. The decision to implement the ERP project was the major decision taken by the managers at Cisco, this was taken at a time when Ciscos legacy environment was not able to support the operations. In January of 1994, Ciscos legacy environment failed to such an extent that the losses could not be ignored and something had to be done to handle them. Such was the state of the company those days that it had to be shut down for two days. 2. The managers were very particular of the team members that will work on the project. They took the best of their employees for this project so that they get the best brains to work on this project avoiding any chance of inefficient manpower.

3. The managers also made a particular choice in deciding the partners for them. They weighed their options very well before finally deciding the name of KPMG as their integration partners. 4. The Program manager from the side of KPMG that headed the project was previously the director of an IT Company that had put in various parts of the ERP system. Thus the experience that he had immensely added to the success of the project. 5. Cisco was also much worried about who their vendors should be for the implementation. They very cautiously judged Oracle as their vendor. One reason was that because this project was being driven pretty strongly by manufacturing and Oracle had a better manufacturing capability than the other vendor.

6. The managers were very enthusiastic to present their idea to the Board of Directors to get their final approval. They had very strategically defined the deadlines and the estimated budget of the project which was keenly accepted by the Board. 7. The Steering committees was placed at the top of the entire project management structure. This was for a defined purpose. They were not required to take care of the management of the project. Their main role was to provide sponsorship for the project, ensure visibility and to motivate the team. 8. In the implementation stage, properly planning was done and the implementation was done in phases that were known as Conference Room Pilots (CRP). This enable in a better control and timely completion of the project.

Where had the ERP team been just plain lucky? Answer: I thing that there is no lucky here, all success of Cisco ERP implementation is the result of hard

and smart work from all team including steering committee so all project activities can be performed well and get the best result.

Do you think that the Cisco team could do such a project again if they had to? Why? Why not? Answer: I think with their experience of implementation methodology, business process and also technical knowledge they could do such project again in the future. The Cisco model can also be used as a model of how to implement an ERP system for the enterprise.

2. How important is the ERP to the overall architecture? Do you see the ERP component as something that will be undertaken by some, most or all companies as they build their Information Age IT architecture? Answer:

ERP system for an enterprise play major part in the overall architecture, it integrates all business functions overall the enterprise, where all stakeholders collaborate using the integrated application to make all data flow from one organization unit to another unit consistent and accountable, give the management quick data consolidation for decision making.