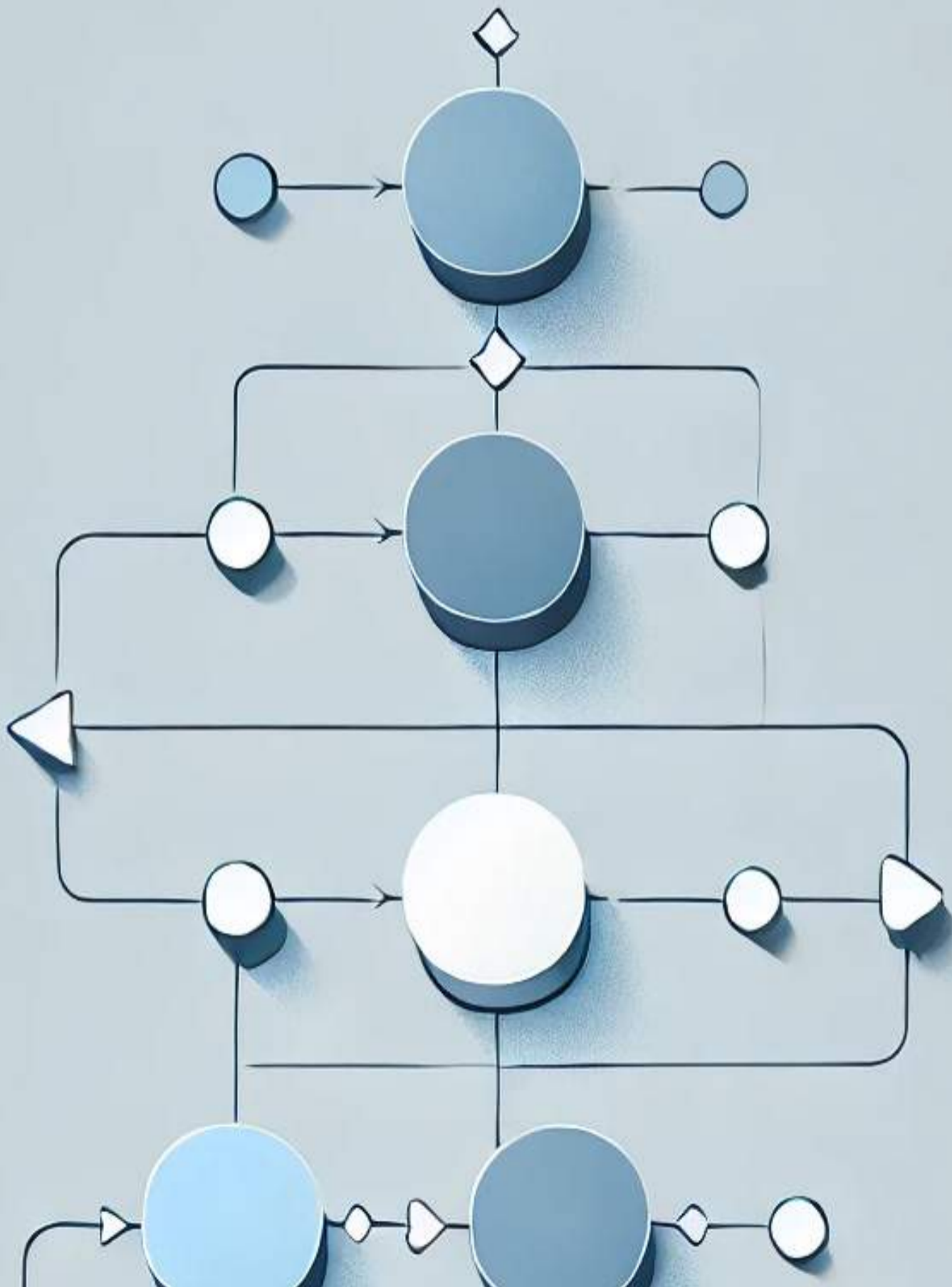


# How to select ERP software

5 simple steps to making the right choice

FORMULATED BY INDEPENDENT INDUSTRY EXPERTS



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# Gather your ERP requirements

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Almost no organization decides suddenly that ERP should be the next capital investment.

Usually, an ERP project is a gradually escalating idea, beginning with a person or small group being given permission to explore and develop the idea sufficiently enough to be turned into a legitimate business discussion.

The size of the project, and the benefits of the project, result from a step known as 'requirements gathering'. This is the process of obtaining and writing down a detailed list of the activities that an ERP system must be capable of handling, used as the fundamental basis to enter into discussion with vendors about the capability of their product to satisfy your list of requirements.

Later, if the project progresses far enough and a contractual agreement is made, fulfilling your list of needs can become a legal requirement.

## The devil is in the detail

As you can imagine, the key to requirements gathering having value is getting down to gory details.

For instance, if you list as a requirement “Be able to take a customer order”, any vendor would be able to say their ERP product does that. “Be able to take a customer order in any unit of measure and in any currency” is a more detailed definition. “Be able to take a customer order in any unit of measure and in any currency over the internet” is an even finer description, and not every ERP vendor would likely be able to respond affirmatively to that requirement.

You’ll need to do this for multiple modules, some of which will be outside your area of expertise. Surveying your key stakeholders is therefore absolutely essential. These will vary from organization to organization, but we provide a basic template in Table 1.

Take a moment to think about a few processes that are outside the normal core operations, say freight accounting, legal entity structure, purchase requisition approval, asset management, sample delivery, and exporting. Would you know all the questions to ask? What the documentation problems were? Where legal boundaries exist?

For this reason, it may be a very good investment to hire an ERP consultant that can help tease out answers from these types of specialized knowledge areas.

STAKEHOLDER	AREA OF INTEREST
SENIOR MANAGEMENT	ANALYTICS, BI
DEPARTMENT MANAGERS	DEPARTMENT MANAGERS
ACCOUNTS DEPARTMENT	ANALYTICS, BI, DEPARTMENT RELEVANT FUNCTIONS, HR
SHOP FLOOR WORKERS	DOCUMENT MANAGEMENT, INVENTORY, DESIGNS
WAREHOUSE STAFF	INVENTORY, SUPPLY CHAIN MANAGEMENT, MOBILE DEVICE INTEGRATION

Table 1 - Example map of ERP stakeholders and modules of interest

## Plan for future improvements as well as current needs

The ultimate success in requirements gathering is not only to capture everything that the current business process does today, but also to compile a list of realistic process improvements your ERP can facilitate.

From that point, financial benefits begin accruing, and you are starting to compile the data required for a justified ROI.

Quantifying the financial benefits from software has always been a dicey proposition. There is no accounting entry for “improved efficiency”, “better decisions”, or “greater understanding”. So if your requirement gatherers are good, they will coax along the thought process using those intangible phrases to try to get at things that are, in fact, tangible. For example:

- “Where will improved efficiency show up?” may lead to opportunities to identify job consolidations.
- “What is the cost of bad decisions today?” may lead to some quantifiable discussion about inventory obsolescence costs, lost sales, or poor choices in product development.

Typically, the tangible benefits side of a new ERP will result from:

- reduced working capital and
- associated carrying cost
- reduced manpower
- reduced obsolescence cost
- greater material and product yield
- service improvements

Expect some tension at this point, as requirements gatherers push for every possible benefit dollar, and the business unit pushes back on commitments they may be called upon to verify, and that they may live to regret.

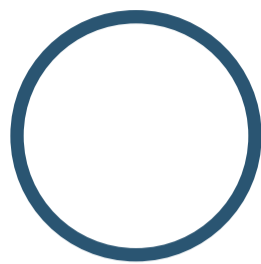
The requirements list will serve as the basis for all vendor discussions, for the eventual contract language, and for the basis of your vendor relationship going forward. Get it right, and you have a common language for holding vendors accountable, for realistic

product comparisons, and for guiding configuration decisions. Get it wrong, and you will spend inordinate amounts of time trying to unravel what was really meant by ambiguous requirements.

After you have been through the requirements gathering phase, you will pretty much know whether you have a compelling business case or not. If you do, it's time to sell the case to your leadership and get project approval so you can begin talking with vendors in good faith.

**Before you move onto the next stage,** make sure you have:

- Surveyed all appropriate stakeholders
- Drawn up a list of current requirements your ERP must hit
- Identified process improvements a new ERP can help you achieve
- Ensured senior management are on board with the project



# Organize your ERP selection team

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By now, you will have assembled a cross-functional set of stakeholders charged with selecting ERP software.

Let's talk about how to mold them into a functional ERP selection team to best communicate with potential vendors.

## Who should be on my ERP selection team?

Ideally, you're aiming for your ERP to be fully representative. You want a true cross-section of the company to ensure that

**At a minimum**, you should ensure you have:

- A project manager (if you're reading this you may have already volunteered)
- IT specialist(s) to advise on any technical aspects, like whether the ERP will need to be customized and how long that is likely to take
- An executive sponsor to ensure that all decisions are backed by c-suite
- Representatives from all key stakeholder groups to advise on specialist requirements
- An independent ERP selection consultant if need one and can afford it. They will

have seen it all before and can identify issues before they become problems

## Delegating a spokesperson

Vendors are childlike in their attempts to get their way. If they cannot get you to agree to a point, they will happily go to another team member and get them to agree, and cite that as a team decision.

It is therefore essential to designate a spokesperson with sole authority to speak on behalf of the team and to make binding commitments.

Of course, you'll still have normal group interaction and communication; it just means that everybody understands that if the spokesperson didn't say it, it isn't official.

Who the spokesperson should be is a matter of preference. Obviously it can be you, the project manager, as long as you protect against the risk of forming a personal relationship with a vendor during the sales cycle that influences your judgment.

A good alternative is to select a purchasing professional to be the spokesperson. In addition to having experience in dealing with vendors, procurement people are already trained in keeping discussions ethical, transparent, and professional. And, as the software selection narrows, you have a negotiator already in place who understands the details. The risk with this arrangement, obviously, is that the purchasing professional must be able to absorb the team's viewpoints, and your direction, and represent them fairly.

**Before you start creating a vendor shortlist,** make sure you:

- Have created a fully representative ERP selection team
- Agreed on who your team spokesperson is



# Create a vendor shortlist

How do you go about paring down a selection of two hundred plus ERP packages to something more manageable?

The first good news is that it is improbable for all ERP packages to be equally applicable to your business and industry, so with a little bit – one to five days – of disciplined research, you should be able to cut the list by 90%.

## The ‘vendor research’ stage

To state the obvious, the internet is a good place to begin. Search for industry-specific ERPs and take a look at their websites to narrow down your list quickly.

Next, know what your competitors are running. This is for two reasons:

- It’s a pretty good check on whether or not your pared-down list is valid (their software should be on it)
- You will be asked this question when you make the final recommendation for software to the executive committee.

Third, read printed material. A large amount of written information comes from the internet, but also think about trade magazines, newsletters, or trade show brochures that people might have.

Lastly, network. Talk to people you have met at training classes, or conventions. Talk to

your IT people; they probably already know who the best software vendors for your organization are. Talk to people you used to work with and see what they use now.

You can also network online - specialist LinkedIn groups and user forums are a good place to start, and Quora is also a useful tool for asking niche software questions to an open audience.

## Send out RFIs for more details

When you have assembled a list of fifteen to twenty-five companies of interest, build out an RFI (request for information). This is a formatted document that you send to each company, to acquire basic background and contact information.

If you construct your RFI well, you will likely cut your list in half just based on the responses. For instance, if a mid-size player responds that they have no implementations in your industry, or if a company is late in returning an RFI, is there a compelling reason to continue investigating them?



After evaluating the results of the RFI, you should be able to narrow down your interest to a list of eight to twelve viable candidates. Now it is time to roll up your sleeves, for the hard work is beginning.

## Creating a final shortlist

You've done your research, and you now have a list of eight to twelve viable ERP providers.

Your next step is to cut that list again, to create a shortlist of four to six candidates with whom you are going to engage in serious discussions and invite to demo.

Begin this process with no preconceptions. Each competitor starts with an equal opportunity. If you fit a statistical norm, your semi-finals list breaks down kind of like this:

- **Niche small to mid-size vendors** with an industry-friendly solution, and they seem to understand your business and its problems. They don't have huge development staffs – nor do they have huge price tags and huge maintenance fees. These vendors are widely used by your competitors.
- **Large vendors**, who have limited experience with your business, or a similar business model. While you wouldn't describe the fit as "perfect", you have confidence that these vendors will be around for the long term, and that development will keep pace with changing business requirements. These systems are more expensive to buy and maintain.
- The occasional vendor **who doesn't have experience with your industry**, but promises rapid and specific customization to make a generic blueprint specific to your business.
- The occasional large vendor who has no experience with your industry, but has let it be known that they are desperate to partner with you so that they can break into your industry. As such, they will be more than normally accommodating, in terms of price, maintenance, and service

You may have other characterizations, but at this point, the competition is less about the software per se than it is about the relative trade-offs between purchase economics, the viability and experience of the vendor, and how important you perceive you might be as a customer.

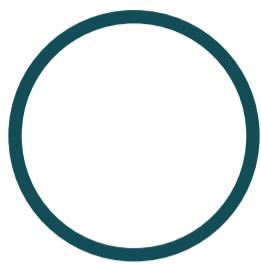
These are fundamental strategic choices, and you do not need to understand anything about software to assess these risks. You need general confidence that the software

will work – but the specifics can come later.

There is no mathematical formulation to tell you how to weigh and assess each vendor's pros and cons. When you have a proposed shortlist in hand, discuss it with your IT director, your selection team and your consultant (if you engaged one) – not for approval, but for a reasonableness check.

You are basically looking for any logical flaw by which your vetting process may have resulted in eliminating a vendor with an ideal ERP solution for you.

When you are comfortable that you have the strongest group of ERP provider candidates, it is time to send out the RFPs



# Sending out RFPs and assessing responses

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Sending out an RFP is a great way to:

- Let the vendors explain how their product is a good fit for your requirements
- Ensure responses are all uniform in format to make it easier to evaluate.

First, let's clarify what this should cover, and what should be covered in previous/later communications with potential vendors:

## RFIs vs RFPs vs RFQs

The abbreviations RFI (request for information), RFP (request for proposal), and RFQ (request for quote) represent documents that will serve as milestones when you are choosing an ERP vendor. Regardless of your ERP team structure, make certain that someone from procurement helps your team create effective RFI, RFP, and RFQ documents.

An RFI provides relevant written information about an ERP vendor of interest. This is a business biography, which explains who the vendor is, what their product does and, if the RFI is well written, also conveys a sense of the company's values, and what it stands for.

RFPs are sent out to shortlisted vendors, and are structured around the list of

several hundred items assembled during ERP requirements gathering. Once vendors have the RFP in hand, serious conversations ensue, as vendors seek to understand the requirements better.

RFQs should be sent to the two to five vendors you invite to demo. Here, each ERP vendor specifies all of the financial conditions to provide the proposed solution, including initial licensing costs, annual maintenance costs, payment terms, etc.

## What should be in my RFP?

There are a number of things to include in an RFP. A good basic template to work from is shown below.

SECTION	WHAT TO INCLUDE
Summary of project purpose	Background on your company, why you want a new ERP, which departments will be using it and general information on what processes it should take care of
Project timeline	When you plan on selecting an ERP by, and a goal implementation timeline broken down into key stages
Requirements	Include for each requirement: reason you want it, how much of a priority it is for you, which area of the business has the requirement, what it should integrate with, and whether you want it straight out of the box (i.e would long-term development of a customized solution be acceptable?)
Vendor qualifications	What you want from the vendor. Include: request for client recommendations, what services you want them to provide, what level of support you'd like, what sort of company culture you expect
Proposal evaluation criteria	Let your vendor know how you propose to evaluate their response. This should include a deadline date for the return of responses to your RFP



If you want, you can invite potential vendors to a meeting. This will allow them to question you, and make certain they understand fully your requirements list, your hot button list and your business model. It's also a chance for them to uncover any critical criteria not covered by the RFP/requirements list.

This is a time consuming process, but the RFP responses you receive will likely be better for it.

## Evaluate RFP responses and demos

Once you receive your RFP responses back, you may need to eliminate a few more vendors from your list. You should be aiming to invite no more than three vendors to your initial round of demos

It's therefore very important to decide on a uniform set of criteria for evaluating RFP responses. Have your selection team read through the RFPs and score each out of five

against these criteria. Total these up, and have a meeting to discuss the five highest scoring systems, and aim to whittle this down to a final three to invite to demo.

Remember: the three you invite to demo won't necessarily be the three highest scoring systems. If your highest scoring ERP doesn't meet your timescale or vendor culture requirements, you'll probably want to drop it.

## The demo stage

This is a tricky step, because vendors will offer a demo that highlights all of their advantages, and downplays all of their weaknesses.

You do not want to start the process by being cynical or distrustful, but you do have an obligation to your organization to probe beyond the surface discussion. "Trust but verify" is applicable to ERP decisions as well as foreign policy.

A good way round this is to provide providers with an ERP demo script. This should include:

- Sections dedicated to all of your key requirements, so that vendors can't shy away from them
- Example scenarios for your vendor to take you through
- Space for the vendor to add their own content - you want them to be able to show off their best features too!

A good verification technique, if a vendor knows they have a legitimate shot at the business, is to have them set you up with reference calls to existing customers. This gives you a chance to discuss - in private - the software with a business peer who is using it. Even here, though, remember that the vendor will arrange a reference with a satisfied customer, and it will be up to you to probe.

## Evaluating vendor demos

Much like the RFP process, it's important to evaluate demos across a uniform set of criteria.

Get everyone present for the demos to rank the systems from one to five on each requirement, and see which scores highest. This is the one you should be strongly considering as a main contender.





Remember: it is not unusual to find that after the demo, when you and your team regroup and begin talking, big areas of different understanding, and gaps in understanding emerge. If that is the case, do not hesitate to schedule yet a third meeting with the sales team, specifically to discuss these disconnect points.

Ultimately, schedule as many vendor meetings as it takes – you cannot afford to get this decision wrong and they cannot afford not to answer your questions.



# Making your ERP selection decision

You've talked to the vendors ad nauseam; you've read and re-read and clarified the RFPs; you've done every reference call and site visit allowed; it's time to start talking price.

Before you make your final selection, you offer each vendor who you believe could provide you with a viable software solution an RFQ.

Be prepared to be initially confused by the RFQ results. Most software vendors do not put effort into simplifying their pricing, and this is complicated stuff. You will likely have to study the RFQ carefully to fully understand it.

These questions should help you get to the bottom of your RFQs quickly:

- Is your vendor selling a single software package for a single price, or is he selling you multiple modules comprising a total package (cafeteria style)?
- If your vendor is pricing for multiple modules, is he charging you a flat fee per module, or charging you per license? If not per license, is he charging you on some other basis,
- like purchase orders generated, invoices created, etc.?

- What if you purchase an additional module two years from now?
- How is annual maintenance structured, and what is it based on? Are there multiple levels of maintenance service offered in the RFQ?

After you have studied the RFQ, and think you understand it, imagine purchasing a company approximately half the size as your own, and standardizing them on your ERP package.

If you understand fully what your immediate out-of-pocket expense and annual increase in maintenance would be as a result, then you probably do understand the RFQ pretty well. If not, study it some more.

## What does a good RFQ response look like?

The RFQ should detail:

- The initial expense to acquire and load the appropriate software modules
- The annual cost of maintenance

These two figures, cumulated over a fixed time period represent the total cost of ownership. This is the bottom line number to use when comparing relative economics.

The key question about calculating total cost of ownership is how long to amortize your ERP system. Imagine that you have two vendors with approximately equal software solutions. One vendor charges a high amount upfront for the software, but has relatively low annual maintenance. The other has very low software selling price, but charges dearly for maintenance.

In that case, the cumulative total cost of ownership will intersect at some time in the future. The life expectancy of the software that you use to calculate payback could determine which has the apparent economic advantage.

These numbers will be one of the few tangible factors in your decision-making. Considering economics in ERP requires a careful balance; while you want to be a responsible steward of the company's money, there is no amount of savings that can make up for a poor software solution.

Consider pricing carefully, but do not depend upon this exclusively for your decision.

## Choose your ERP system

After all of the homework, preparation, and research, it is time to make a software decision.

If you are lucky, one package is so clearly superior to the rest that the decision is obvious, and any rational person would agree on it as the logical choice.

However, if there are two or more close contenders, then you need to choose, and – equally important – be able to defend your choice.

Your decision will be based on three distinct factors:

- Your perception of the effectiveness of the software
- The economics of the purchase
- Your perception of the business relationship with the vendor.

You may think that the last should be a moot point if the software works well, and the economics are satisfactory, but it is still important. There is a huge difference between “works well” and “work perfectly” and how effectively you bridge the gap between those two conditions is largely dependent on the relationship you have with your software vendor.

Ultimately, you will judge your vendors on three questions:

- Will this vendor really listen to my concerns?
- Will this vendor act on my concerns?
- Am I important to this vendor?

## Finding an evaluation procedure

How well the software works can be very tricky, especially if different modules have different relative advantages.

The most important piece of advice in this article is this: If the choice between two software packages is reasonably close, establish an objective written evaluation to

justify your ultimate decision.

This evaluation requires hard thought and leadership on your part, because it has to be seen as both impartial and measuring the right things.

The evaluation could be a list of questions, with a point awarded for each “yes” answer.

Alternatively, it could be a weighted scorecard, listing each module, its relative importance to the future health of the company, and its perceived effectiveness. This should align the best software with the company’s strategic direction.

A weighted scorecard also allows for non-transactional considerations to be part of the evaluation: for instance, how difficult are upgrades? If you feel like your objective evaluation provides you with a drastically wrong conclusion, then recheck your evaluation logic. If the logic is sound, then the software solution may be counter intuitive.

As project manager, it is your responsibility to figure out which, and correct any problems. You will be expected to articulate clearly to your company leadership why you made the decision you did.

The closer performance evaluations turn out to be, the more important the role of economics become in the decision. Conversely, if a software package is undeniably advantaged, as long as the economics are reasonable, you should select the advantaged software. Close performance evaluations actually give you a stronger negotiating position, because you are willing to go either way.

So make your decision, and good luck. Remember, performance first, economics second, and vendor relationship third. But consider all three.