PANORAMA

CONSULTING SOLUTIONS

An Expert's Guide to ERP Success

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Chapter 2. ERP Software and Vendor Selection

Evaluating and Choosing the Right ERP System: Initial Considerations

The specific ERP tool chosen is just one piece of the business performance puzzle. How well a company designs its business processes, establishes key performance indicators, measures performance, designs organization and employee roles, and trains employees to use the new system are some of the many aspects that can have a huge impact on the success of the ERP implementation. This is not to say that the ERP software itself is not important. Obviously, you want to select software that best fits your business requirements and operational model. But the key is that ERP is simply an enabler – not the sole reason – of increased business performance. Though important, ERP vendor selection is just one component of successful ERP projects and should be combined with a business benefits realization program to ensure business value and ROI are achieved from the implementation on.

ERP software selection isn't always as easy as it may seem. Many companies realize that they are in dire need of new ERP software, but they are often unsure how to define what they need to find the right solution for their organizations. Other companies only consider one or two well-known ERP vendors without giving thought to the 100+ active and viable ERP vendors in the industry. Given all the choices and complexity in the ERP space, the ERP software selection process can be an overwhelming task. However, it is critical to find the software that is the right fit for your organization at the right cost and with the lowest level of risk – even if that software is from a company you might be unfamiliar with at the start.

When Panorama embarks on a software selection process for our clients, we evaluate a population of more than 100 different ERP packages. Most of these are offerings from well-established companies with well-established client bases. Many of them can deal with complex requirements, such as product configuration, product development management, engineering change orders, project accounting, and the like. The only difference between them and the larger guys is that they don't receive the same level of publicity. Yet they are often times better fits, more flexible, and less risky than a typical Tier I software option.

So who are these alleged viable alternatives to SAP, Microsoft and Oracle? There are a ton: Epicor, Glovia, Visibility, IFS, Infor, Syspro, Consona, NetSuite, and Exact, just to name a few. Many of these companies have international offices, international customers, and user count scalability ranging from 10 to 1000s. And many of them will cost much less to purchase and implement than a comparable Tier I option.

Another great feature of some of these lesser-known options is that they often provide more functional specialization and focus than traditional ERP packages. If you are a complex, engineer-to-order type of discrete manufacturer, you likely aren't going to want a package that also tries to deal with the processes associated with high-volume, make- to-stock manufacturing. Instead, you will likely want a solution that handles your type of business very well rather than one that tries to be everything to everyone.

So what's the best way to navigate through the endless ERP options available? If you have employees that have worked with ERP systems at other companies, ask them what think. Ask colleagues and even competitors what they use or recommend looking at. Hire a consulting firm that specializes in ERP software selection. Conduct research on the Internet. In any case, there are many resources and options out there to ensure that you find the ERP solution that best fits your business.

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Considerations During ERP Software Selection

Many companies think that an ERP software selection project is about simply choosing an ERP software package. However, there is much more to it than that. There are five key things that should be considered during an effective ERP software selection process. Some of these may seem like common sense, but it's surprising how many companies overlook these important items.

- **Functional Fit.** This is the probably the most obvious one, but it's an area that is important to thoroughly address. Panorama encourages clients to develop detailed business process workflows and demo scripts for vendors to demonstrate against. Vendor demos should be less focused on being a sales presentation and more on being a "day in the life" simulation based on your company's specific needs. Scripted demos are one of the best ways to do this.

- **Technological Fit.** Most "hidden costs" that haunt companies during implementation are related to poor technological fit. It is important to understand what skill-sets, servers, databases, PCs, etc. will be required to support any potential ERP solution, as well as the corresponding costs.

- **ERP Industry Analysis and Vendor Viability.** It is critical to have a good sense of the ERP industry in general, as well the stability and financial viability of potential vendors you are considering. While it is good to do business with an established vendor that will be around to support your ERP system in the future, there is some value that can be realized from doing business with a smaller or less established ERP vendor that may provide better service and focus than a larger firm.

- **Total Cost of Ownership and Business Case Analysis.** According to Panorama's ***2012 ERP Report***, more than half (56-percent) of ERP budgets go over budget and those that do run approximately $2 million over what anticipated figures. It is important to fully understand the cost commitments that you are getting yourself into. Keep in mind that during the ERP selection process, it is in the software vendor sales reps' best interests to downplay the cost and risk of their solutions. It is your job to make sure you are validating and identifying a more realistic cost picture. In addition, you also should understand and quantify the potential benefits that an ERP solution may bring to your organization.

- **Implementation Plan Analysis.** Again, it is important to get a realistic picture of implementation duration and resource requirements. Your implementation plan and expected duration should include items that vendors often are not involved with (and therefore don't include in their implementation estimates), such as infrastructure migration, data migration, conference room pilot, training, testing, etc. Many of these items are on the project's critical path and can create delays if they are not appropriately accounted for.

ERP Differentiators to Consider

One of the key reasons many companies implement ERP and supply chain management software is because it provides more transparency to far-flung global operations. In today's evolving economy, it is even more critical for companies to effectively manage and adjust their supply chains to ensure rapid changes are met with rapid responses. ERP and supply chain management software can help, but there are a number of options on the market – and a number of differentiating factors between the leading enterprise software systems. Following are four variables to consider during the evaluation process:

- **Robust demand planning and forecasting**. Companies can have the most effective procurement and transportation processes in the world, but it doesn't matter if they aren't forecasting the right volume

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and timing of the product being purchased. Not all ERP or enterprise software solutions can handle complex planning and forecasting without some type of third-party bolt-on, so it is important to carefully evaluate the planning capabilities of any prospective software vendors.

- **Streamlined procurement processes**. Most of our clients work with high volumes of contract manufacturers outside their home countries, which adds to the potential complexity and need for transparency in the procurement process. When evaluating potential software vendors, it is important to understand the ability to automatically create purchase orders based on projections, streamline the transmittal of purchase orders to vendors, and access their statuses in real-time.

- **Integrated transportation management and logistics**. When outsourcing manufacturing overseas, it can be difficult to manage lead times and keep tabs on shipments. Whether your company's products are in containers on the water, in transit via a domestic freight carrier, or sitting on the dock at your vendor's warehouse, it is critical to know exactly where products are at every point in the supply chain.

- **Advanced pick, pack and ship warehouse management system (WMS) functionality**. Once the products are in the warehouse, it is important to have efficient processes to pick, pack and ship orders to your customers. Software solutions handle inventory management and order processing functions very differently, so it is vital to find the right fit for your WMS needs.

These areas are incredibly important to evaluate as part of the software selection process as they tend to be key competitive advantages for successful companies and differentiators between potential supply chain management solutions. Bringing these factors to bear will help focus the evaluation process and ensure you hone in on the most important differentiators of your industry and your business.

Executing Successful ERP Requirements Workshops

Selection and implementation of ERP systems requires the creation of an ERP project team and the documentation of the organization's technical and functional ERP requirements. This fact-finding exercise produces additional work on already overworked employees.

Taking these people away from their jobs, even for a short time, poses a great risk to the organization. Therefore, the benefits realized from each requirement workshop must outweigh these risks. What are the best methods of conducting an ERP requirements workshop? What steps will minimize risk and maximize gain? Following are some tips on how best to execute an ERP requirements workshop with your staff:

- **Define a goal for every session.** Every session must work toward a common goal. This goal should be stated at the start of the session and agreed upon by the moderator and participants.

- **Document precisely and accurately.** There are many ways to document an ERP requirements workshop. The common theme must be to capture an accurate and thorough description of what's being discussed.

- **Field questions but stay on track.** Workshops are a great way for people to get together and discuss the way they do business. Everyone can talk about their gripes and even get to know their co-workers. However, it's vital to keep the discussion on-track and focused on the goal. There's a fine line between being thorough and a free-for-all discussion that produces no results but wasted time.

- **Stay focused on the ERP project's goal.** The key for a successful workshop is to develop ways to

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handle the diverse personalities present during a workshop, keeping off-topic conversations to a minimum, and staying on time. Stating a goal at the beginning of the session allows the moderator to defer back to the goal should the conversation have little value-added benefit.

- **Assign homework.** Give the participants pre-reading assignments to be completed prior to the workshop. This allows them to hit the ground running and to form their ideas of what they want covered during the workshop.

- **Follow-up or fall behind.** After the requirements are compiled from the first workshop, it is imperative that a follow-up session be performed. A follow-up session need not be a formal, lengthy session, but it should go through every requirement. This is an excellent time to verify that the ERP requirements gathered are understood correctly.

Incorporating the practices detailed above will ensure that the workshop produces the requirements necessary for a successful ERP project, in addition to making optimal use of the company's best and brightest employees.

Six Steps to an Effective ERP Assessment and Software Selection

To simplify the evaluation process without overlooking a package that may be a strong fit with your organization, Panorama typically recommends a multiple-phase vendor evaluation process. This process assumes that you have already identified the to-be business processes and business requirements (as explained in *Chapter 1: Strategies for Preparedness*), which are critical to an effective ERP assessment:

- **Define the potential industry-specific and general ERP packages.** Based on your business requirements and budgetary needs, you can probably eliminate most vendors. We typically recommend arriving at a group of no more than six to eight "long-list" vendors to assess.

- **Once the "long-list" has been identified, identify the key requirements that a package must have in order to make the "short-list**." These "deal-breakers" should help you arrive at a list of three to four vendors. Typically, discussing business requirements with each of the long-list vendors and viewing an overview demo of the product can help an organization hone in on the top contenders.

- **Conduct a more detailed assessment and analysis of the short-listed vendors.** You should identify and prioritize all of the detailed business requirements that your organization needs in a potential ERP package. From these requirements, it is helpful to create demo scripts to ensure that each vendor is demonstrating their product as it relates to your business processes. Otherwise, vendors like to focus just on their strengths and not necessarily on how their software fits with your specific (and unique) business. This is the point in the evaluation when you should issue requests for proposals (RFPs) to the short-listed vendors to get a feel for their costs, software capabilities and proposed implementation strategy.

- **During the short-list and demo evaluation, involve key users and ask them to complete evaluations for each of the vendors**. These evaluations should be quantitative assessments of how well the products address key business requirements and demo scripts.

- **In parallel with the functional assessments, assess the technical capabilities of the short-listed vendors.** This should include items such as scalability, ability to integrate with legacy systems, how open the architecture is, etc. These technical factors may or may not weigh as heavily as your

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functional business requirements.

- **Make a decision based on the input from the vendor evaluations and technical assessments.** It's not as easy as it sounds, but you will want to gather the input you've received from the various assessments and prioritize the vendors' strengths and weaknesses. Depending on the level of agreement or disagreement on your team, this task may require more of a quantitative ranking and weighting to evaluate how well each of the packages meets your business requirements.

While this process may seem overwhelming and more extensive than you had planned, it is a good way to consider a comprehensive set of options without taking an eternity to arrive at a decision. Often times, it takes the help of a consulting firm to guide the process and provide expert insight. Given the magnitude of such a decision, it is well worth allocating both the time and resources to make the vendor software selection that is right for your organization. We'll go into further detail about assessment and selection later in the chapter.

ERP Payback Periods

When a company purchases an ERP system, one question is a must for CIOs, CFOs and IT managers: "How long will it take us to recover our investment?" An ERP system is a large capital expenditure that consumes a great deal of financial and personnel resources. Although functionality and implementation length are very important decision criteria, a short payback period and high ROI will help distinguish one software choice from another.

Payback period is defined as the length of time to recover the total project investment. This calculation begins at the start of the initial outlay of an ERP project. The most common way to determine payback period is through the discounted cash flow model, which takes into consideration total cost savings and realized benefits during the lifetime of the ERP system. Panorama's ***2012 ERP Report*** found that most completed ERP implementations have a payback period of about one to three years. The ***2011 Guide to ERP Systems and Vendors*** further segmented payback period by vendor tier to find:

- Fifty-five percent of Tier I implementations have payback periods of less than three years
- Sixty-six percent of Tier II implementations have payback periods of less than three years
- Seventy-six percent of Tier III implementations have a payback period of less than three years

While the differences between Tier I and Tier II ERP payback periods can be attributed partly to their complexity and the number of ERP software users, they are still too profound to discount.

Now that we know there is a clear different between the different tiers of ERP software, would it be fair to say that the payback period after go-live is about the same for each vendor within a given tier?

When comparing the payback period of Oracle, SAP, Microsoft Dynamics, Epicor and Infor, our research shows these five major ERP vendors all have similar payback periods (ranging from 2.6 years to 3.2 years). Interestingly enough, the average payback period in the "Other" category is only 1.8 years.

While this data can provide the basis for many assumptions, one must be cautious. It is difficult to definitively conclude that Tier I and Tier II ERP implementations take longer to recover their implementation costs based on ERP software alone. The companies who tend to select Tier I or II ERP solutions may expect longer ERP implementations and higher project costs, thus altering the project's core foundation and requiring a longer payback period.

It may be more realistic to suggest that Tier I and Tier II ERP projects take longer to recover their investments

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and, while doing so, insert the caveat that some companies that choose Tier I and Tier II ERP vendors slightly skew this data because they enter into the projects expecting them to have both longer implementation timelines and higher project costs.

ERP Software for Small- and Medium-Sized Businesses (SMBs)

Ever since the early 1990s, Fortune 500 companies across the world have been on the ERP bandwagon. But with the millions of dollars required to implement and well-publicized coverage of ERP failures, many SMBs wonder if ERP is worth the cost and risk to their businesses.

Approximately 75-percent of our new clients and prospects interested in having us conduct an ERP assessment and vendor selection are companies with annual revenues under $100 million. In fact, one of Panorama's recent contract signings for this type of work is for a company with annual revenue of $15 million. Ten years ago, this type of small business interest in ERP was very uncommon.

The key things driving small businesses to ERP seems to be 1) growth of the small business sector and 2) more focus on the small business market from ERP software vendors. Most of Panorama's small business clients are considering or implementing ERP because of their rapid growth and the corresponding strain being placed on their legacy systems. In addition, large ERP vendors that once focused solely on the Fortune 500 market are now developing lower-cost solutions with more appropriate functionality for smaller businesses.

A third and final possibility is that many niche ERP players have entered the marketplace to provide functional solutions for specific industries. Open technologies such as .NET have reduced barriers to entry into the ERP market so many smaller, industry-specific niche players are able to fill the voids left by the big ERP companies at a lower cost. Cloud and software as a service (SaaS) providers also are booming and are considered to be quite attractive options for smaller companies, who want neither the burden nor expense of hosting their solution on-premise.

Although this increasing focus on small business is good for companies with limited capital budgets, it also poses additional risks. Now, there are more choices than ever, and some vendors' products are much more proven than others. So small businesses should be especially thorough when evaluating and selecting an ERP package. They should engage in a vendor selection process that ensures they choose a solid software package that provides a strong ROI to the company.

Pitfalls of ERP Software in SMBs

ERP implementations are challenging for companies of all sizes, but the fact of the matter is that SMBs typically have less "fat to trim" than global organizations. In today's environment, when many SMBs are operating with skeleton crews and every dollar counts, ERP software can be an incredibly risky proposition.

Though the following pitfalls can affect all manner of organizations, they are especially pertinent to SMBs:

- **Resource Shortages.** While it is difficult for any organization to commit full-time resources to an ERP project, it is even more difficult for an SMB. A company with 100 employees typically has more difficulty creating an employee project team compared than a company with 10,000 employees. Of course, project teams for SMBs typically are smaller, but resources are still much harder to come by.

- **Budgetary Limitations.** This is a concern for all types of companies, but an owner of a $10 million

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company is going to feel the pain of a 25-percent cost overrun much more than the CEO of a large company. In addition, SMBs often have implementation budgets of less than $500,000, which automatically eliminates many large ERP vendors from consideration.

- **Less Margin of Error for Operational Disruptions.** Again, any situation that disrupts business is unfortunate no matter what size the company, but if a small manufacturing firm misses shipments for a week due to a failed ERP implementation, the odds of the business permanently closing down or filing bankruptcy is much higher than for a Fortune 500 company.

- **Higher Likelihood of Conforming Processes to ERP.** As has been previously covered, companies must find the ERP software that best fits their business processes rather than let ERP dictate their business processes. SMBs often have less developed business processes than larger companies, and therefore may be more likely to allow ERP software to determine their future business processes instead of first defining what business processes will give them a competitive advantage in the future.

Smaller companies need to start by choosing the right ERP vendor as part of their software selection process. Then, they need to carefully manage costs and benefits as part of an overall ERP benefits realization program. Once these risks are minimized, SMBs can begin focusing on maximizing ERP benefits.

Saying No to ERP Software

ERP software is a lot like caffeine or alcohol: early on, it can generate a lot of energy and excitement. However, after the buzz wears off and reality sets in, it can leave a rough hangover in its wake.

Companies evaluating such ERP software packages often get so hooked on the initial buzz and excitement surrounding the possibilities of ERP, they overlook the fact that it may not be the appropriate solution for their organization. Occasionally during ERP software assessment and selection projects, Panorama consultants have had the unenviable task of advising clients that even though they think they really, really want ERP, it is not the right solution for them.

Factors to Consider When Evaluating Whether or Not ERP Software is Right for Your Organization

- **Are your business processes broken?** One of the great promises of ERP is the ability to streamline business processes. While ERP can help improve processes, even the best ERP software will not enable an organization to implement a business process management mindset. Simply put, if your business processes are inefficient and broken, ERP alone will not fix them. In some cases, focusing time and effort on tweaking business processes can provide more drastic improvements at a lower cost than ERP.

- **Can you handle the business risk?** How prepared and able is your organization to accept the risk associated with ERP? New enterprise systems require significant changes to people's jobs and, in some cases, create entirely new ways of doing business. In addition, cost overruns are very common for ERP projects. It is incredibly important to quantify and assess the business risks and costs and compare these to the business benefits you expect to achieve from a new ERP system.

- **What is your core competency and competitive advantage?** Some companies have spent years building custom software that gives them a competitive advantage over their peers or allows them to do things more efficiently than any ERP package ever could. In these instances, it may actually be a step backwards to implement ERP. Organizations need to carefully consider where they stand, what they

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have to lose, and what they have to gain before determining whether or not ERP will work for them.

Some of the above factors can be uncovered during a business case analysis or justification. Others are more qualitative in nature and are more difficult to assess. The key is that ERP isn't always the right answer, and that's OK. There may be other feasible options that make more sense and provide a higher ROI. Examples include implementing business process improvements, enhancing organizational design, or instilling a performance management program to increase overall corporate performance. An added bonus is that by implementing these types of incremental improvements in the short term, organizations may be in a much better position to more effectively and successfully implement ERP software in the future.

The ERP Ten-Year Itch

When CIOs and CFOs invest in their new ERP systems, they expect a long and happy relationship with the new software. Like most capital investments, they typically expect the investment to last ten or more years. Ten years is a good deal of time and generally long enough to generate a positive ROI if one has selected and implemented the right ERP software, but why does it have to stop at ten years? Why not 15 or 20 years? After all, it's been a while since anyone at Panorama met a corporate executive who was champing at the bit to do another ERP implementation just for the fun of it.

Part of the problem relates to technology. Twenty years ago, many companies were still investing in green screen AS/400 mainframe enterprise systems. Today, most companies we work with won't touch a mainframe-based system with a ten-foot pole. So in many cases, technology changes so dramatically that it's simply not feasible to remain too far behind the curve for too long.

Of course, we're starting to see this again today with SaaS, cloud-based and hosted ERP systems that are changing the way CIOs think about technology within their four walls. Even if your software isn't outdated per se, there are enough ERP vendors developing compelling new solutions that make it tough to not at least consider replacing your current system.

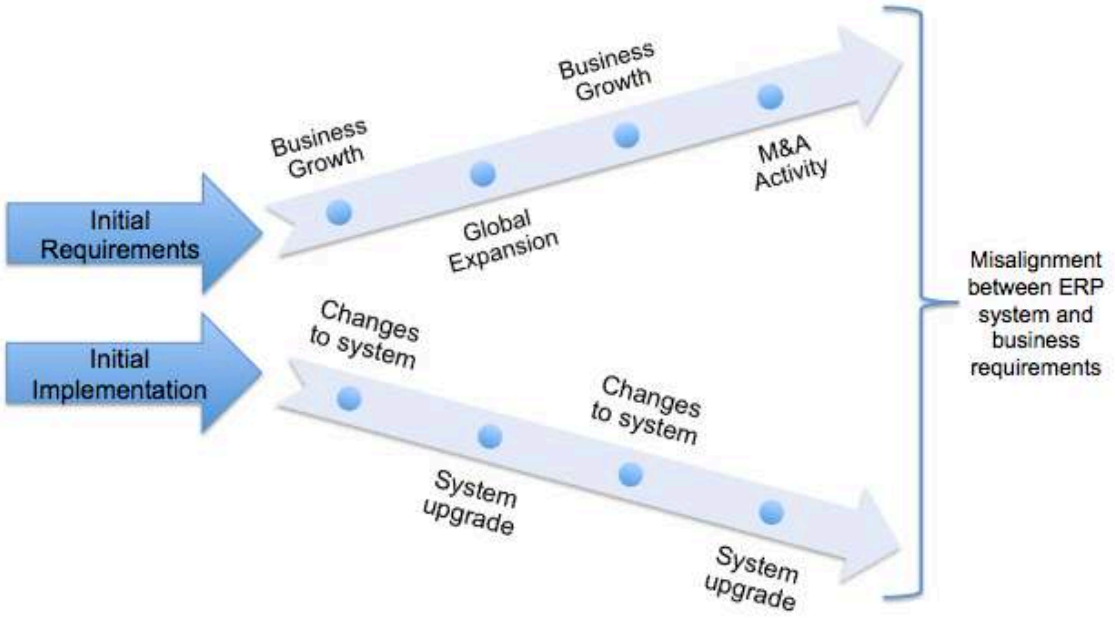
In most cases, however, the software itself isn't the problem. Most of the leading vendors in the marketplace have been around for 20 years or more, so you would think that their offerings would be keeping up to date with technology trends. For example, look at the ERP software solutions we are currently helping some of our clients replace: JDE Edwards from Oracle, Baan from Infor, and Epicor. These are all very viable ERP vendors with robust and modernized ERP systems, so why are our clients looking to replace them?

It all comes back to misalignment between the business and the software itself. As the graphic on the following page depicts, companies diverge with their ERP systems over time.

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As you can see, businesses and enterprise technologies are relatively aligned after an ERP software selection and implementation. (Of course, this level of initial alignment depends on how good of a job they did selecting and implementing the right software for their needs.) But over time, some peculiar changes take place, causing this alignment to diverge an increasing amount. Panorama analysts have found that it takes about ten to 12 years before this misalignment emerges and reaches a boiling point.

Getting More Out of Your ERP System

Given today's uncertain economy, many of our clients are looking at ways they can get more out of their current ERP system rather than investing in an entirely new one. (This is the case even when the system is misaligned to the company's business processes or overall goals.) Unless your organization has simply outgrown its ERP system in its entirety, this may be a very feasible option. In fact, our experience with many of our clients is that their operational pains lie not in the system itself, but in broken business processes and misuse of the system.

Six Questions that Help Determine Whether or Not "Fixing" Your Current ERP System is More Feasible Than Implementing a New ERP System

- Are you using the full functionality of the current system?
- Are you using the most recent version of the system?
- Do employees have a strong understanding of how to use the system?
- Are your business processes and workflows well defined?
- Is there employee or executive resentment of the system?
- Is your company willing to invest in the resources required to implement a new system (time, people, money, etc.)?

If you answered "yes" to all of the above questions, then chances are it's time for a new system. However, if

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you answered “no” to one or more of the questions, then you may be able to achieve improvements through an ERP benefits realization plan.

Optimizing the Benefits of Your Current ERP System

- **Identify and prioritize problems in the current business and technology environment.** The first step is to identify the pain points or problems with your processes and system. Common categories of problems include broken business processes, lack of employee training/communication and poor system functionality.

- **Identify and quantify opportunities to improve your business processes.** In order to ensure your organization is achieving optimal benefits from its system, you need to define opportunities to improve business processes. This step should entail documenting all business processes, identifying opportunities for improvement, and quantifying the business benefits of improving those processes. In addition, you should audit the configuration and customization of the system to ensure alignment with your business processes and requirements.

- **Define root causes and solutions for problems with the current system.** After the above steps, your team should be in a position to define the root causes and potential solutions for your highest priority issues. By the end of this step, you should have some “low-hanging fruit” to pursue to improve your business and technology operations.

- **Implement the ERP Benefits Realization plan.** Once solutions have been identified to address the various process, people, and technology issues you are facing, it is time to implement them. These solutions should be treated just like any other project with clear tasks, milestones, and ownership.

By implementing these steps, you will be better positioned to realize untapped business benefits of your current ERP system with considerable less investment than the purchase and implementation of a new system.

After You Say Yes: Tips to Find the Right Software and Vendor

Considering Your Current Vendor

Panorama regularly works with clients who want nothing more to do with their current ERP software solution. The system is old and outdated, it hasn't been upgraded in years, it no longer supports evolving business needs, and the employees hate it. So, the last thing companies in this situation would want to do is consider keeping this system during an ERP software selection process, right?

Not so fast. We typically advise organizations in this situation to take their finger off the trigger and assess all of their options before committing to such a big change. There are a number of advantages to at least considering your current ERP vendor before committing to an entirely new system:

- **Problems often relate to business processes and organizational change management, not the software.** More often than not, the software is not the problem. Challenges are usually more associated with misaligned or ineffective business processes, which an ERP system isn't going to fix without some business process re-engineering. In addition, employees often don't adequately understand how to use the system's functionality, another aspect that the software isn't going to automatically address. These are variables that often point to a troubled implementation rather than a

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troubled software solution.

- **Upgrading the software often can provide immediate business improvements.** Most software vendors make several enhancements throughout any given year, so if you are even just a year behind on upgrades, you may be missing out on key functionality that might address your current challenges or pain points. An upgrade might address many of the concerns end-users have with the current system.

- **Several major software vendors have acquired other enterprise or point solutions, expanding your suite of options.** Vendors such as Oracle, Infor and Sage have achieved growth through acquisitions over the years, so your current vendor may have products in their portfolio that you are not aware of. In addition to core ERP software offerings, many vendors are acquiring and integrating advanced point solutions that could extend the functionality of your organization's current ERP system.

- **An upgrade can yield potential cost savings compared to a replacement.** The cost of keeping you as a customer is lower than the cost of a competing ERP vendor winning your business, so your current vendor may have more flexibility to negotiate software licenses, maintenance and upgrade costs. In addition, because your organization is familiar with the current system and likely has developed competencies to support the software, there may be initial and ongoing cost advantages to keeping the current solution in place.

- **Considering your current ERP vendor as a viable option provides more negotiating leverage.** When there is viable competition from an incumbent, other vendors are more likely to reduce their costs during negotiations. They will understand that the potential cost savings to you and your organization will create barriers to a new option, encouraging them to be more aggressive in their pricing.

Obviously you don't want to go through the motions or waste anyone's time if the current ERP software vendor is clearly not going to get the job done in the long-term. However, we have found that most organizations tend to prematurely rule out their current ERP vendor when they may in fact be good options. An objective and independent ERP software selection process will help determine the right fit for your organization, whether it be your current ERP vendor or other solutions.

ERP System vs. Best-Of-Breed Software

ERP in the traditional sense means implementing a single system to handle all critical business functions. But some companies instead find that implementing and integrating niche packages that handle specific functions extremely well are more suited for their organizations. Others find that their business and operating models are so unique that a completely custom solution is a feasible option. With open platforms such as .NET and WebSphere very pervasive these days, custom solutions aren't as crazy of an idea as they were five or ten years ago.

So How Does One Decide? What are the Trade-offs?

- **Business Risk**. This is probably the most important. ERP is risky from a business perspective because its functionality may not meet the requirements of your business. Custom or best-of-breed solutions are risky from a technical perspective because, if not managed properly, the cost and time associated with developing a system from scratch can quickly spiral out of control.

- **Technical Competency.** Many ERP systems use proprietary development tools, which means that a company has to rely solely on the vendor or hire employees with very specialized skill sets to maintain

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and modify the software going forward. On the other hand, if a company chooses a custom or best-of-breed solution, it may have to beef up IT staff with people that know .NET, integration, etc. In either scenario, most companies require more technical staff and resources during and after the implementation of new software.

- **Business Processes.** This is easy to overlook and bears repeating: during the evaluation and selection process for new software, it is important to identify and prioritize which business processes are the most important to your success and competitive advantage. Those are generally the ones that you'll want to continue to find ways to improve and be much more discriminating in terms of what software will meet your needs. Many companies have spent years developing and tweaking their business processes to give them competitive advantage, so it is important not to give this up just because you are implementing new software.

While the above three areas do not suggest that any option is better than the other, they do provide a few starting criteria to use when determining which direction you want to go with your organization. In many cases, companies find that one particular ERP package will meet all their key requirements. In others, they find that after evaluating their ERP options, their needs will be better suited with a custom or best-of-breed solution. In either case, what is important is that companies carefully consider their options and scenarios as part of their overall ERP assessment and selection process

Finding an Independent Third-Party to Help Guide the Selection

Once you have determined that ERP is right for your company, it is important to choose the software that best fits your particular business. This happens to be one of the most difficult aspects of ERP projects. It also is very difficult to find truly independent consulting advice that will help you select the right software for you rather than the one that will lead the consulting firm to future kickbacks or business.

Whether you're choosing or implementing ERP software, it is critical that you have an independent partner to help you through the process. An objective and technology-agnostic partner will help you choose the ERP system that is the right fit for your needs. In addition, an independent partner will ensure that you implement your ERP solution in a way that transforms ***your*** business rather than maximizing software, licensing and ongoing professional services revenue for the software vendor. Such a partner is more inclined and capable to help you address critical implementation success factors not specific to the technical facets of the software, such as organizational change management, business process management and benefits realization.

Granted, as the president of just such a firm I'm not entirely unbiased but trust me: by employing the advice of independent outside experts, you can leverage their expertise and lessons learned from what works and what doesn't work in ERP implementations. However, it is critical that you find one that is 100-percent independent to ensure a successful software selection. The following questions will help you evaluate the true independence of an ERP consulting firm:

- **Do you sell ERP software?** This is probably the easiest one. If they do, it is impossible for them to be objective and to make your business requirements their priority. Even if they represent two, three or even five different software vendors, that's only a tiny fraction of the overall ERP market.

- **Do you receive any financial kickbacks or have any financial ties to one or more software vendors?** This one is not so easy. Ever since Panorama was founded, we've been offered large sums of money as "referral fees" in exchange for bringing clients to them. This would have been an easy way to make some cash on the side, but completely goes against our business model . . . and our ethics. About two years ago a client asked us to guarantee our independence in writing, so we included a clause in our

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contract that if they found evidence that we were in any way aligned with one or more software vendors, we would refund 100-percent of our consulting fees to them. We have yet to find another firm that is willing to put their money where their mouth is in this way. Most consultants, industry analysts and online vendor database subscription services charge vendors fees of some sort.

- **Do you have a staff of consultants that focuses on one or more software packages?** Having worked for one of the Big 4 firms earlier in my career, I know that this is where a lot of the large consulting and audit firms get you. They may technically be independent, but they are going to be more than a bit biased if they have a staff of SAP or Oracle specialists that they're dying to staff on the next project. I did several ERP software selection projects with my former Big 4 consulting firm, and it was no coincidence that we recommended SAP in each and every one of our software selection engagements. Even in cases where SAP was a good fit, our blinders were such that we couldn't objectively advise the clients on where the risks and weaknesses were with the solution, which every ERP solution has.

When evaluating third-party consultants, it is key to remember that companies with considerable ERP experience have proprietary and proven tools and methodologies to accelerate your selection and implementation process at a lower cost. Ask to see specific sample deliverables and tools that they would deliver for your project. Also look for tangible ways that the firm can incorporate your needs into the evaluation and implementation process, help improve your business operations and make your organizational more profitable with new enterprise software solutions.

Understanding the ERP Sales and Demonstration Processes

Common Practices in the ERP Sales Cycle

ERP software options are extensive, with many variables and options for a purchasing company to consider. Although the ERP sales cycle can be lengthy and complicated, it is rather standardized. In general, a company seeking ERP software begins the process by determining the requirements needed from the software to run its business. Once the requirements are determined and documented, a request for information (RFI) is distributed to approximately eight to 12 potential vendors. After the vendors respond to the RFI, a short list is compiled.

Next, a request for proposal (RFP) is sent out to the short-listed vendors. The RFPs outline more detailed business requirements of the software than the RFIs and can be quite lengthy. Responses to the RFP generally state whether the software currently accommodates the requirements, whether some customization is required, whether a third-party software provider is required, or whether the requirements are not handled at all. There are frequent “discovery” meetings between the company and the vendor. Some companies invite the vendors for on-site visits to ensure a better understanding of their business environment and needs.

It is common practice to require short-listed vendors to demonstrate the software to employees and potential key users of the system. Vendors typically travel to the client site with an account manager and a team of pre-sales consultants specializing in a few functional areas of the software in which to demonstrate. These demonstrations, which last for a day or two, generally address the requirements outlined in the RFP (which is why it’s so important to get your organization’s requirements right) and reflect the high-level processes of the company using the software's standard functionality. During the demonstrations, vendors preview what the software can do, and the company has the opportunity to ask questions.

After the vendor demonstrations, the company identifies one or two preferred vendors and begins negotiations. The negotiations often include pricing, implementation approach and general contract terms. The implementation can be done solely with the assistance of the vendor or with the involvement of other

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implementation service providers, such as accounting or consulting firms. Companies typically do not handle the implementation solely with internal employees or contractors because of the expertise required and risk associated with large, complex implementations.

Tips for a Successful ERP Software Demonstration

Preparing the Vendor

- **Explain the ERP requirements.** You spent countless hours gathering ERP requirements, so make sure the software vendor understands them. An ERP vendor can't demo what they don't understand. Don't waste time clarifying points during the demo; make sure the vendor understands them long before they step into your office.

- **Set expectations.** Not only should you explain ERP requirements, but you also should explain what the software vendors should expect during the demo. At Panorama, it's best practice to have the vendors spend the first hour of the day with all SMEs in the room addressing cross-functional requirements (i.e., dashboards and workflow) so they don't waste time on these requirements during the functional sessions.

- **Dual stream and war room.** Capitalize on the ERP vendor's time. If possible, try dual-streaming the demo to make sure all the material gets covered. If questions are taking over a minute to address, set up a parking lot for later discussion. It is also ideal to set aside a "war room" as a chance for these parking lot items to be answered while vendors are on site.

- **The early bird gets the worm.** Provide the software vendors with an early morning start to test their equipment. Nothing is worse than a room full of anxious participants staring at a blank screen.

Preparing the Participants

- **Be informative.** Provide information such as the demo agenda and invites ahead of time. Business must continue as usual, so make sure the participants have time to cover their bases. Also, don't forget to explain the scoring process so participants can properly gauge the sessions. Using demo scripts to write comments as they go will help jog their memory when inputting their scores digitally.

- **Set Guidelines.** The ERP demos are the finale of the requirements gathering process. Attendees should be on time and attend the same sessions for each software vendor. If participants aren't consistent with attendance, they can't provide a reliable score.

Helpful Reminders

- **Remember to evaluate the ERP software based on requirements as opposed to vendor performance.** When all is said and done, your daily life will revolve around the software, not the best performing vendor.

- **Designate a timekeeper to make sure sessions stay on schedule.** Once the demos start to venture off track, it becomes very difficult to make up for the lost time. Remember, set up a parking lot for questions and even speak with the vendor before hand about the potential for follow-ups.

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What To Expect From ERP Software Vendors During the Selection Process

Even during more robust economic times, the job of a software sales representative is to tilt the playing field to his or her advantage. If they can find a way to increase their chances of success and minimize their effort to close a sale, they most certainly will do so. In addition, vendors will often do whatever they can to give themselves an upper hand and additional power during the evaluation process.

The following types of behavior are common tactics used by software sales reps to try increasing their odds of success:

- Insist on conducting the demo and evaluation process their way rather than the prospective client's preferred way
- Control the tempo and pace of the evaluation process by requesting that they demo last or at a later date than you prefer
- Bypass working with the selection project team and try to work directly with C-level executives
- Create doubt in the selection process by criticizing the selection team's approach
- Refuse to participate in the process, sometimes very shortly prior to a scheduled demo
- Cry foul by expressing concern that they don't have enough time to prep or don't agree with the selection process

These patterns are generally more common and more pronounced when the vendor feels that they are at a competitive disadvantage. This may be because they feel they are not as good of a fit as its competitors, or perhaps they are not willing to invest the time and resources to properly demo their product. Although it is hard to fault them for trying, it is important to maintain a level playing field so that you are certain that an ERP solution is chosen on merit rather than for emotional or other less rational reasons.

How To Manage ERP Software Vendors

After conducting countless ERP software evaluations, Panorama consultants have found that the following methods can be very effective in diffusing vendors' attempts to control the process and maintaining a level playing field:

- **Ensure time to prep with the software vendors so they have no reason not to understand your business.** This includes sharing demo scripts and key business requirements, and allowing them some access to subject matter experts within your organization. Panorama typically facilitates discovery meetings between clients and potential vendors to ensure the appropriate level of preparation.
- **Allow vendors limited access to your organization's key employees.** While many sales reps prefer to build strong relationships with your executive team rather than sell the merits of their system, it is important to provide some managed level of interaction with your employees. Without a sense of connection, they may refuse to participate in the process.
- **Remember that you are the customer, not them.** Although it sounds simple, you would be amazed at how demanding sales reps can be. Whatever heartache a sales rep expresses, it is important to remain

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firm, have confidence in your evaluation process, and demand that they earn your business on merit. You are not expecting too much by asking a vendor to demo their product against your specific business needs rather than simply presenting canned sales demos.

- **Coach executives to deal with vendors.** It is very likely that at least one vendor will bypass you at some point in the process and go straight to someone higher in the organization. Therefore, it is very important that your executive team be coached on how to handle reps when they call or request a meeting so that those inquiries are redirected to the selection team.

- **Let a vendor walk if necessary.** Inevitably, software vendors are going to look at their product, their competition and the needs of your organization. If they don't like their chances, they may threaten and/or actually walk from the deal. It is important to expect that this may happen and not be afraid to let a vendor self-disqualify. After all, it's not a good sign if a vendor doesn't have confidence in his or her own product's ability to compete. Panorama typically will short-list four vendors with the expectation that one with likely withdraw, leaving three for consideration.

- **Remember you can often work with another value-add reseller (VAR).** Many software vendors sell directly to customers as well as through a network of VARs. If the vendor doesn't want to participate, don't be afraid to look for a VAR that may be willing to take place in your selection process.

- **Engage with an independent third-party consultant to facilitate the evaluation.** Information is power, and having complete and unbiased information about software vendors, their functional capabilities, etc. can only be achieved by relying on an independent party.

- **Expect some turbulence and drama during the process.** We have yet to see a software selection project that goes exactly as planned with all vendors. Inevitably, someone at some point will try to gain an advantage during the selection. It is not realistic to expect that every vendor will cooperate as planned.

A new ERP system is a significant investment of cost and time, so it is important to ensure it is chosen via the appropriate type of evaluation. If vendors are willing to participate, this should be a good qualifying sign. If they are not, then perhaps their elimination from consideration is appropriate. In addition, vendors that are difficult to work with during the selection process are rarely any easier to work with during implementation. With more than 100 viable ERP vendors in North America alone, the balance of power clearly is more in favor of ERP software buyers than sellers. By keeping the above in mind, you will be more effective in selecting potential ERP software vendors for your organization.

Contract Negotiations

With all the business software available in today's market, finding a good ERP system isn't too tough. However, finding the one that is the best fit for your unique needs can be somewhat challenging without an independent and experienced view of software options. Once this task is completed, it can be even more challenging to negotiate a good deal with your chosen ERP vendor.

Enterprise software typically is a multi-million dollar expenditure, but companies often don't invest the same time, expertise and resources in negotiating these deals as they do with other major capital outlays. Given the magnitude of the cost, time, and risk associated with large business software purchases, ERP vendor contract negotiations should be treated with the same importance and care as other investments.

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Some of our clients go into vendor negotiations ready and armed to beat up their vendor on cost. However, negotiating a contract with your ERP software vendor isn't just about minimizing cost – it's also about managing risk, defining scope and clarifying roles and responsibilities. A great low-cost deal isn't going to do you much good if the vendor has shifted all the risk to you and your team to help get to the desired number. Finding the right balance can be a tricky proposition.

- **Beware of under-estimated implementation costs and durations.** At this point in your ERP project, the ERP vendor is still in sales mode, so it's not in their best interest to give you a good sense of what it's really going to take to implement the software effectively. Generally, vendors will omit or underestimate times and costs associated with implementation, internal costs, IT upgrade costs, etc.

- **Don't assume that their first offer is their best.** As with any negotiation, software vendors typically start by offering software at their list price and reducing from there. Vendors have several ways to make money on a deal, whether it be through ongoing maintenance, professional services or training, so you should not be afraid to ask them to be more aggressive in their pricing, particularly as it relates to software license costs.

- **Leverage competing offers.** We see too many companies zero in on one vendor without at least receiving proposals and conducting a thorough ERP software evaluation for other potential vendors. With competing offers, you are able to ask the preferred vendor to meet pricing offered by a lower-cost vendor or to make concessions based on any functionality gaps or concerns.

Remember: the ERP evaluation and selection process isn't simply about choosing software. It's also about procuring the best software at the best price possible and developing an implementation plan that will make the ERP project successful.

The following sections offer few areas to focus on as you get started with your contract negotiations.

Software Licenses

Understanding the scope of modules and functionality in the proposed contract you are negotiating is probably the most obvious starting point, but it can be overwhelming with all the inconsistencies in vendors' software offerings and pricing models. If you are negotiating with or comparing offerings from multiple vendors, are you comparing apples to apples? Keep in mind that not all software vendors group functionality within the same modules. A customer relationship management (CRM) module for one system, for example, may include a robust way to covert a lead into a customer with a corresponding order, while other systems require use of an order-entry module.

Once you have a comparable scope, you then want to make sure you've clarified other important variables such as concurrent vs. named users, per user cost, and other hidden license costs. If you are negotiating with a cloud or SaaS vendor, you will also want to consider escalating annual charges for additional functionality, data or transactions.

The key to effectively negotiating software license costs is to benchmark to other deals and identify your points of negotiating leverage. What is the vendor offering to other clients? What are the competitors offering? Does the incumbent vendor provide some additional leverage via upgrade or migration credits that may put cost pressure on other options? Are there ways to spread out purchases of licenses or modules so you're not spending all the money up front?

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Annual Maintenance

Although there are some variable costs associated with providing annual support, this is where vendors make their real profit. On average, 15- to 17-percent of the software license list price is paid to the vendor each year. One could argue that maintenance is a vendor cash cow with plenty of wiggle room to bring down costs. However, we've found that this variable is tougher to negotiate without the right experience. Keep in mind that vendors will usually hold the line on this annual fee, especially if you've negotiated an aggressive deal on software licenses. At the very least, you should remember to include a maximum amount that vendors can raise their annual maintenance fee – holding steady for at least three years and tying to KPIs both are good way to ensure that these costs don't get out of control in the long-term.

Contract Terms and Conditions

This is another area that can be difficult if you're not used to reviewing software vendor contracts on a regular basis. But some common things to look for include payment terms (you don't want to pay for everything up front), what will happen if you don't like the vendor's technical implementation resources and other key conditions and pitfalls that can be more advantageous to the vendor than to your company.

Scope of Work (SOW) and Implementation Assumptions

This is arguably the most difficult area to negotiate and understand without extensive experience. As follows, it is the area that companies get themselves into trouble with because they don't understand the implications, costs of risks associated with the assumptions.

As a starting point, answer these questions as you are reviewing the vendor contract, SOW and assumptions:

- Who is responsible for training end users (you or the vendor)?
- Who is responsible for data cleansing and migration? How much historical data will be converted?
- Who will handle overall project management of internal and external resources?
- What are the assumptions surrounding changes to the configuration of the software? (This is especially pertinent if you have been sold an “industry pre-configured best practice” solution.)
- How many internal resources does the vendor assume that you will dedicate to the project?
- Who is responsible for system testing, business process testing and integration?
- Who will create system and security profiles in the system?
- Who will handle Sarbanes-Oxley (SOX), FDA, system validation and other regulatory compliance requirements?

There is just no way around it: software and vendor selection is key to achieving ERP success. Yet with all the options on the market – and all the information, reviews, complaints and war stories floating around the Internet – the decision can be an extremely difficult one to make. In the next chapter of *An Expert’s Guide to ERP Success*, I’ll discuss how to analyze specific systems and dive into some industry-specific considerations that can serve as critical differentiators.

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About the Author

After 15 years of ERP consulting at large firms including PricewaterhouseCoopers and SchlumbergerSema, Eric Kimberling realized the need for an independent consulting firm that really understands both ERP and the business benefits it can enable. He currently serves as the managing partner of Panorama Consulting Solutions, the world's leading independent ERP consultant.

Eric began his career as an ERP organizational change management consultant and eventually broadened his background to include implementation project management and software selection. Eric's background includes extensive ERP software selection, ERP organizational change, and ERP implementation project management experience.

Throughout his career, Eric has helped dozens of high-profile and global companies with their ERP initiatives, including Kodak, Samsonite, Coors, Duke Energy, and Lucent Technologies to name a few. In addition to extensive ERP experience, Eric has also helped clients with business process re-engineering, merger and acquisition integration, strategic planning, and Six Sigma. Eric holds an MBA from Daniels College of Business at the University of Denver.

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