

4 KEYS FOR ERP SOFTWARE SELECTION SUCCESS

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4 Keys Overview

In this whitepaper, we'll review the four key dimensions or components that need to be considered when selecting a new ERP (Enterprise Resource Planning) system for your business. In the whitepaper, we'll show how favoring one of the dimensions at the expense of the others can greatly reduce your chance of success with your new ERP system. A successful selection of an ERP system will incorporate all four dimensions and this whitepaper will outline why.

How Companies Select an ERP

Once you've decided to take the plunge, there are many different ways to select a new ERP system. Some companies search out an ERP Selection consultant to help guide them through the process, while others will investigate options on their own. No two ERP Selection consultants are the same, so even processes run by selection consultants can vary quite a bit between customer scenarios.

Companies use a variety of different methods - and it's never the same method twice. It's especially interesting to learn what is regarded as the main deciding factor in the ERP solution that is ultimately chosen. In most cases those on the selection committee make one factor their biggest decision point. Continue reading to find out why that's not the ideal way to do it. In order to make the best long-term decision you need to balance four dimensions in making your selection.

Industry/Fit

Platform

Implementer

Cost

This white paper will cover why **each dimension is important**, the pros of a decision based on that dimension and the cons of ERP software evaluation consideration based on this criterion alone. Also provided are the most common reasons a company makes a selection exclusively or primarily on that dimension.

Selecting an ERP based on Industry and Product Fit

Selecting an ERP based on your industry is the most common reason why a company chooses a certain product. As an organization you're looking for the product that fits your unique industry. Companies hear horror stories about the laborious customizations needed in order to make ERP systems work and they want to find something as out-of-the-box as possible. It's common to also want an implementer who has worked in the industry so they understand key terms and can provide best practices based on your work with previous customers.

PROS OF SELECTING BASED ON INDUSTRY AND FIT

Choosing ERP software based on best fit is absolutely a key factor to making a decision.

You need to be able to assess the "degree of fit" of the product in order to know you don't have to add a huge amount of functionality to get it to work. *If you disregard the product and industry fit in your evaluation, you will end up spending a lot of extra time and money customizing the solution to your business and then you'll carry the ongoing burden of managing those customizations.*

PROBLEMS IF YOU ONLY CONSIDER INDUSTRY AND FIT

The most common mistake companies make is to value the industry/product fit and nothing else. If you neglect the platform, you end up with a vertically specific product that has an outdated user interface, running on a server

"The most common mistake companies make is to value the industry/product fit and nothing else."

under someone's desk, supported by a three-person company who originally wrote the software back in 1990. If you neglect the implementer, you will spend far more money than you should and increase your risk of failure dramatically. If you neglect cost, you will end up implementing something much more expensive, such as SAP or Oracle, when it might not be needed. If this were the case it would also take two to three times longer to get up and running in your environment.



MOST COMMON OCCURRENCE

Companies make this mistake most often when the ERP selection process is run by business division leaders.



Selecting an ERP based on Platform

When you select an ERP based on a platform, you are looking at the technology stack and user interface of the solution and determining that this platform is going to receive the right amount of investment so you can stay on the product long-term. In this case, you're selecting a Tier 1 or Tier 2 solution which you believe is going to be a great long-

“You wouldn't buy QuickBooks to run General Motors, so you need to make sure the platform will support the size of your business.”

term investment. Many companies today are looking at the Cloud for their ERP, so companies like NetSuite, WorkDay and Accumata are starting to gain market share. Other companies like Microsoft, Oracle and SAP do well in this category also, because it is well known these organizations are investing heavily in the long-term viability of the ERP system.

When selecting a product based on platform, you want to have knowledge of the current technology to understand if it fits within your current infrastructure. You also want a grasp of the roadmap for the product so you know if it will be a long-term technology fit for your initiatives (like hosting everything).

Understand if the product will provide the scalability you need to make sure it will perform well for the amount of transactions and users in the system. You wouldn't buy QuickBooks to run General Motors, so you need to make sure the platform will support the size of your business.

PROS OF SELECTION BASED ON PLATFORM

Prioritizing selection based on platform will make your IT team happy. It ensures that the solution fits well in your current infrastructure, is supportable by your current IT

staff and will present the users with an interface that is current and easy to use. You are likely to have less downtime in this scenario as your team will understand the underlying technology well.

PROBLEMS IF YOU ONLY CONSIDER PLATFORM

The most common mistake is when a company says “we want our ERP in the cloud,” and that’s the deciding factor in the selection process. When this happens, a lot of functionality is given up and the implementation approach is typically not understood at all. The upfront cost is generally less, but a five-year or 10-year total cost of ownership (TCO) study will show the costs to be greater than an on-premise solution.



MOST COMMON OCCURRENCE

Companies typically think platform only when the ERP selection process is driven by the CIO, with little involvement from the business.

Selecting an ERP based on the Implementer

Selections based solely on the implementer are less common. There are a few occasions where people have weighted the implementation team's experience greater than the other factors. When they do, it's typically because they have been burned in the past by a failed implementation or they're in the middle of a problem right now and looking for the right team to get them out of their spiral. ERP implementations fail anywhere between 15-30% of the time. They are delivered on-time, on-budget about 35% of the time, so if you want your project to be successful and on-budget, you really have to give great consideration to the implementer's ability to get this project done. ERP implementations are very hard to do right and just because the implementer can demo the product well doesn't have any bearing on their team's ability to deliver the full solution.

PROS OF SELECTION BASED ON THE IMPLEMENTER

Your project will get done and potentially even on-time and on-budget. At the end of the day, it's more important to have a working system than a perfect system, so if you selected based on an implementer, you will probably have a happy leadership team, because they've got a system up and working.

“You can end up spending more money than you need if you consider only the implementer.”

PROBLEMS IF YOU ONLY CONSIDER THE IMPLEMENTER

You can end up spending more money than you need if you consider only the implementer. There are bigger accounting and consulting firms who have strong track

records of implementation success but demand a much higher rate for their services. You can also end up spending more money on customizations during the project if you didn't consider the product fit. The business team could also be lacking some of the company-specific functionality they sought going into the project.



MOST COMMON OCCURRENCE

Companies don't often think about the implementer only. In most cases this happens when they have a strong reference from another company or they've recently been burned by a failed implementation.

Selecting an ERP based on Cost

While more people look at industry and product fit than anything else when selecting an ERP solution, selections based on cost as the key driver are going to lead to problems more than any other factor. With that said, cost is definitely important. ERP implementations are quite expensive, so anything you can do to make it more affordable will impact your bottom line. Most companies spend around 5% of their annual revenue on the implementation of an ERP system, so it's a sizable cost. The higher the cost, the more functionality a product will likely have. Likewise, the higher the cost of an implementer, the more experience they likely have.

Another consideration regarding cost is the travel expenses of implementation resources. Travel costs typically consume about 15-20% of the overall implementation

budget, so a great deal of cost savings can be achieved by working with local implementers or requesting much of the work to be performed remotely.

“If you select your implementer based on lowest cost per hour, it may not save you money in the long run.”

PROS OF SELECTION BASED ON COST

It seems obvious, but you'll save money on the product if you choose the lowest cost product. Just remember to balance the cost with the platform and industry/fit dimension. Ask yourself the reason why the product is cheaper? In most cases the inexpensive product is likely so because it either has less functionality or a limited investment in the future platform. If you select your implementer based on lowest cost per hour, it may not save you money in the long run. If you can adequately compare value and experience, you can certainly save money by selecting based on price. Just be very sure you are comparing apples to apples, or it could end up taking more time and adding cost in the end.

PROBLEMS IF YOU ONLY CONSIDER COST

As mentioned above, if you look for the lowest cost product, you are probably selecting a product that will have inferior functionality and fit and more likely than not, be on an older platform without a strong future roadmap. If the product doesn't have a strong future outlook, you have a product that can get you by for a few years but you'll end up having to do this process over again, as your ERP will likely not keep up with user demand and technology.

If you look for the lowest cost implementer, you'll often be using off-shore resources who are not going to understand your business. Your risk related to the implementation success goes up dramatically when you eschew implementation experience for lower cost resources. When you get a low cost implementation resource, there's a reason why: they are less experienced or offshore.



MOST COMMON OCCURRENCE

Companies often select a product considering cost only when they were given an unrealistic budget from management in the beginning, that was not adjusted based on quotes received by ERP providers.

The Best Way to Select an ERP

As you go through the process to select an ERP, you want to invest time in each of these four areas to make sure you're finding the right package that's going to address your needs in each area. From an industry/fit perspective, develop an outline of your corporate structure (including entities and locations) and build a list of five to 15 key processes that you want an ERP vendor to represent in their software. You don't have to spend time asking the vendor if they can do a GL journal, every vendor can.

- You want to focus on ***what makes your business unique*** and make sure the software can either handle that scenario or do it with minimal customization.
- You also want to ***see the user interface*** and ***understand the roadmap*** for future releases and investment in the software.
- You want to ***understand the underlying technologies*** to make sure your IT staff can support or it's all in the cloud, so you don't have to worry.
- To understand implementation strategy, ***have them explain it to you***. Ask what the project team will look like.
- Call not just their references, but the last ***three to four other implementations*** they've started and ask point blank questions about their experience.
- Make sure you have ***software and implementation*** costs from each of the vendors. Ask to see the components of the license price and annual maintenance so you know what you're getting. Ask for a breakdown of the costs for the implementation team. Are you getting lots of people at a really low rate, or a mix of high and low?

These are the most important things you need to do to vet an ERP vendor. Factor in all four dimensions of Industry/Fit, Platform, Implementer and Cost and you'll end up with a solution that meets your needs short-term, long-term and is implemented successfully on the first try.



If you have further questions regarding the ERP software and partner selection process please reach out to our resources at solutions@stoneridgesoftware.com or call 612-354-4966.