

ERP How-To:

Selecting the Right Enterprise Resource Planning System to Fit Your Needs and Your Budget

In Focus series



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We've got a problem. What do we do now?

The “New Normal” has finally caught up with you. Your resources are at skeletal levels and your budgets are drained. You've done everything you can think of to deal with this new reality but it's not enough. You've finally come to the conclusion that you need to invest in technology to put yourself in the best position to continue to deliver the goods and services that you've promised your community. What now?

Perhaps you're one of the lucky ones who are not nearing a fiscal emergency and have the wherewithal to purchase a new Enterprise Resource Planning (ERP) system every few years. Likely you're not. Either way, what you want is the most bang for your buck. But how do you do that. Everything you've heard about ERP systems is that they're very costly to purchase, difficult to implement, and expensive to maintain. Sounds like everything you've ever wanted in an ERP, doesn't it?

We'll the trick is to determine what you really need and then find what best meets those requirements. Perhaps it's like buying most things. Without first determining exactly what your needs are, you find yourself falling in love with something that you don't need and likely can't afford. But, once you've fallen, you find a way to justify it – even if you really can't. Here's hoping that this guide will help you get exactly what you need without getting in over your head.

First Things First: Determining your Needs

So, what do you need? This one's not as easy as it sounds. There are basically three ways to go about figuring this out.

1. Figure it out yourself.
2. Hire a consultant.
3. Have a vendor figure it out.

All three will deliver an ERP that fits your needs. Which one works best for you?

Have a vendor figure it out. This one will work, although you're likely to get exactly what this vendor sells. That might be fine. What you typically do is invite multiple vendors in for discussion and demonstration and you fall in love with one of the solutions. That vendor then assists you in putting together a Request for Proposal that effectively sources their solution. Most other vendors will be able to see that this is happening but will likely submit a bid that doesn't meet the specifications or loses in some other manner. The net result is that you will have a system that works.

If you choose this approach make sure you do the following things:

1. Look at multiple vendors and allow them to thoroughly discuss and demonstrate how their solution will work for your organization.
2. Make sure you ask and understand all organizational changes that will be required. These include process changes which may involve changes to unit responsibilities and authorities. This is especially important if your organization has unions.



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3. Make sure you understand ongoing support and licensing fees and future requirements and costs of updating the software and computing hardware. Oftentimes while ERP system upgrades might be included within the support contract, each upgrade might require computer system updates that are quite expensive.
4. Thoughtfully evaluate whether you need each module that the vendor recommends. Remember, vendor sales people get paid a commission on the total value of what they sell to you. They have a vested interest in selling everything they can. If you find a sales person that actively attempts to limit what you buy, you've got a sales person with a long term view of the relationship and the best interest of both you and their company in mind. Hang on to them.
5. Think about and understand the difference between a want and a need. It is easy to get enamored with features and capabilities that have a "gee whiz" quality to them. Do you really need integrated voice response or is it just cool? Do you really need a full Human Resources System or do you just need access to Payroll information? Do you need Vendor Performance Measurement or do you need a departmental requisitioning system with electronic approval routing? Remember, it's what you need rather than what you want.
6. Don't believe that you need a particular network environment or database unless you really do. If you have other applications that you will be running on the network that do require a certain database or network, you might need to consider something specific. If you are planning on integrating and sharing data between 3rd party applications you might need a common database and/or networking environment. If these things aren't a consideration, then concentrate on the solution. On the other hand, don't find yourself purchasing outdated technology. You also don't want to find yourself in a position where your ERP is developed in an exotic language that very few people know. You'll be perpetually at the mercy of that vendor and whether they can keep their employees happy. Make sure that your solution is using the latest, industry standard technologies. You do want to be on the leading edge, but you don't want to be on what's called the bleeding edge. Don't invest in emerging technologies that have not been proven. You don't want to be a guinea pig, but you also don't want to spend your dollars on past technology.
7. ERP system vendors are typically companies who work throughout the U.S. Make sure that your vendor of choice can meet your State regulatory requirements. If they have a number of clients in your State then you're probably safe. If they don't, make sure that they can produce the regulatory reporting that you require. One sure fire way to do that is to make those reports part of the contract and acceptance agreement. You don't want to find out later that you're on your own when it comes to regulatory reporting.
8. Make sure you don't find yourself on an island. It's fine if the vendor you select does not have any other clients in your State, but make sure they are committed to staying and doing business in your State. Find out whether they are marketing into your State and whether they have sales, support, and service resources dedicated to serving your State. There is nothing worse than discovering after you have purchased that your vendor has decided that your State is not somewhere they will continue to sell and that you're the only



client that they will ever have there. It's likely that your needs as they relate to your State regulations will be under served in this scenario.

Hire a consultant. This is a strategy employed quite regularly as organizations believe that they do not have the appropriate or adequate staff to do the analysis and evaluation of ERP systems and vendors and look to the outside for help. This is another suitable way to approach purchasing and implementing an ERP system. Consultants come in all shapes and sizes and charge all levels of fees for their services. They can work on some or all of a project. They usually have significant experience in this arena and bring valuable insights into the process.

In hiring a consultant you will likely approach it by having several consultants pitch their services and then select one based upon their offering, experience, and references. You might also design a Request for Proposal and have several consultants bid on your project. Hiring a consultant is not unlike purchasing an ERP system. If you decide to select the consultant based upon the approach of interviewing several and then selecting one, you might want to follow the guidelines above in "Have a vendor figure it out." You could hire a consultant to help you hire a consultant, but that is a never ending cycle. So, it seems that you really have but two choices: Interview firms and select one or prepare a RFP and have them bid on your project.

Consultants have many different approaches to doing a project. Some will use what can best be described as a cookie cutter approach. In this approach, although it's usually not apparent, the consultant has already written the RFP and implementation plan from prior engagements and just modifies it to better fit your specific needs. These firms are very good at fitting you into their template rather than creating one that is unique from the ground up for you. This might work well for you if your needs are pretty much "off the rack." By that we're describing an ERP system and implementation that is a one size fits all solution. Typically, these firms have worked with specific vendors before and know that their solutions fit the templates being used. Whether you know it or not, by choosing a consultant you might also be choosing the ERP system. These engagements are usually less expensive and less intrusive as less of you and your staff's time is required.

Other consultants truly start your project with a blank sheet of paper and work with you and your people to build the RFP and discover the correct ERP system to fit your specific needs. The evaluation and questioning process is quite exhaustive and time consuming. Considerable demands on the time of you and your staff are involved. However, the finished product is an RFP that is unique to you and defines exactly what will be necessary for an ERP system to fully serve your needs. These consultants will also typically demand considerable "proof" from responding vendors as to how they meet the requirements. These engagements are usually quite expensive and will typically lead to expensive ERP solutions.

Here are some things you will want to consider when selecting and working with consultants:



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1. Find out the outcomes of at least 10 prior ERP engagements from each consultant you are considering. If you discover that the same vendor or only one or two vendors are being selected you are likely looking at a situation in which by selecting the consultant you are selecting the ERP vendor by default. If that makes sense to you then proceed. If, however, you're looking for more of a "built from the ground up" RFP you should probably look past this consultant.
2. Do a reference check on the consulting firms that interest you. But, here's a significant difference. By all means check with other organizations that have used this firm, but also check with vendors in the market to get their take on the firm as well. If you find that vendors are less than enthusiastic about a consulting firm it is typically because that firm tends to lead business to only one or two firms. Again, that puts you in a situation where selecting the consulting firm might lead to a de facto selection of the ERP firm as well.
3. While talking with references that have used this firm, find out the typical cost of the ERP system that was selected. If your budget calls for a \$250,000 expenditure and most references indicate that they spent \$500,000 plus, you might have a problem in the making. You certainly don't want to hire a consultant who guides you to a solution that you cannot afford.
4. Many RFP's unnecessarily increase the cost of a solution. Ask for examples of RFP's that each potential consulting firm has developed. When you see RFP's that are extensive in size and scope, you might want to tread softly. These enormous volumes of paper look impressive, but what they typically do is drive the price up by requiring customizations and/or modules that do not necessarily make the resulting ERP solution a better fit. In fact, oftentimes a significant number of customizations or modules reduce the effectiveness of the ERP system, its implementation and training, or your staff's ability to effectively use the resulting solution. Whenever an ERP system is highly customized and under performs, the problem is most often the specification rather than the solution. Whenever a vendor customizes a solution the initial cost of the solution increases and typically the ongoing support and maintenance cost increases as well.
5. Find out what kind of mood that a consultant will set when working with vendors. Some consultants take an antagonistic approach that tends to drive up the initial and ongoing costs as well. You must remember that the consultant you choose speaks for your organization and vendors will understand that however the consultant behaves is likely to reflect how your organization will behave after the sale. So, if your consultant is overbearing, antagonistic, overly demanding, and demeaning to vendors during the process, those vendors will likely build some "profit" into their proposals as they want to be prepared to deal with this type of relationship over time. Vendors might also decide not to bid and a potentially great solution might never be offered. When you're choosing an ERP vendor you want a partner not just a provider. An ERP system should not be looked at as a commodity. It's an ongoing relationship. If you find a consultant who looks at ERP systems as commodities, you've got the wrong consultant.

Figure it out yourself. This one probably makes you the most uneasy but it is likely the one that will yield the best results. It is not as difficult as you might expect. Most entities "borrow" a RFP from one of their peers or get one from an association to which they belong. The problem with that is twofold: The first and



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most critical issue is that it is either very vanilla and does not pertain to you or it is specific to one of your peer's requirements and does not pertain to you. Either way, it just doesn't fit. You could modify it to fit you, but what would you finally have? A RFP that does not define what your vision of success is, is not a good RFP for you and will not yield the results you desire. Most RFP's seek to specify in the specifications exactly what fields should be in the new system and how those fields should work. It also defines the rules of response and oftentimes the rules of implementation, training, and ongoing support. While you need to look in to these things and analyze total performance of the new system, which includes implementation and ongoing support, it is extremely limiting to bid a project within such tight parameters. You are likely to get things you do not want, including a higher price, and you are likely to miss opportunities from vendors who do not bid because they do not fit the limits of the specification or vendors who do not offer products and services because you have been so specific in what you want. This may sound counter-intuitive but it is important that you allow vendors to "propose" a solution in an unencumbered fashion. You are unique and a "one-size-fits-all" solution will limit the project to one that approaches your vision but does not achieve it. So, how do you go about determining what you want and communicating that to vendors who might be able to satisfy your vision? Here are some suggestions:

1. In narrative fashion describe what your entity looks and functions like after the implementation of the ERP. This is called a vision statement. When you decide to purchase a new system you are not deciding that you need exactly what you have which is a mistake a lot of people make. So, stop with the endless list of fields. If there are specific and unique fields you need, then by all means ask for them. It's likely that most vendors have the fields you are most likely to need. Don't waste your time presenting a checklist that the vendor answers with "Yes", "No", "Modification", or "Future Release". And definitely don't then do the math and figure out which vendors qualify by checking off the most fields. Vendors will likely check off every field that they can possibly say "Yes" to and then indicate "Modification" on most of the rest. Why? Because they know you are going to do the math and they have a great solution that they think might really meet you vision, if they only knew what that really is. So, forget the field level specifications. Describe what problems you are currently having with your system and what you believe you want to see when the project is complete. Be wordy. Go into as much detail as you can so that each vendor thoroughly understands what you are trying to solve and what you envision as a working solution for your organization. This will give vendors an opportunity to try to show you how they can best fit your vision.
2. If you have any specific, unique needs make sure you identify them in a separate section of your RFP. This might include the need for special fields or processes. If you have a division of responsibility that is unique you will want to spell that out. Union positions have often been designed and will either need to be changed or the new system will have to accommodate processes that are defined in your organization for those positions. If you have unions where it is difficult to change work assignments you may wish to provide a discussion and flowchart of the associated processes with instructions to the vendors that make it clear that they must accommodate your uniqueness. If you have very specific fields that you wish to collect you



should also point those out along with how you will be using that information so that vendors can determine how best to handle them, especially if modifications are required.

3. Don't ask for performance bonds unless you really feel you need them. If your project is extremely unique, you might want to ask for a performance bond. Performance bonds also tend to eliminate vendors who do not necessarily have the wherewithal to handle a project of significant scope. You might also want to request a performance bond and then negotiate it away with favorable payment arrangements. Bid bonds are designed to make sure you do not waste your time by spending time with a vendor in the selection process and then having them back out at the last minute. A bid bond is recommended to make sure that each responding vendor is serious and has a good rating. A liquidated damages clause specifies that if a project is not complete or milestones are not complete by a certain date that monetary penalties are charged to the vendor for each day that the project lapses beyond the agreed upon date. The problem with liquidated damages is that it is very difficult to agree to not only dates but the criteria upon which the agreement rests. For example, having the system installed by a specific date might result in a vendor installing the software but it might be that it does not work to suit you. Is it "installed" or not? It might be that expectations as to how something works within the software does not line up with how it actually works. Is something like this actionable? Does this mean the date has not been met? It is clearly preferable to stay away from a liquidated damages clause. They work when you have architectural drawings of buildings and rooms, but they rarely work when you're talking about software. Software is unique in that its' success depends as much on how it's used as it does in how it's built. Selecting an ERP vendor is a partnership. It's not a commodity selection. Build your relationship in those terms and you will likely have a very good system.
4. Give vendors ample time to respond to your RFP and ask them to provide an in-depth narrative on how their system and services will allow you to achieve your vision of success. A RFP with a short fuse does not get you the information you need to begin the process. By allowing ample time for response it will also give you a better idea as to how each vendor will perform and how their products and services will meet your needs. A haphazard response, when time is not an issue, demonstrates that the vendor will likely not provide the attention necessary during the project. A "vanilla" response likely means that the vendor will try to pound your peg into their hole, no matter how well it actually fits. Look for thoughtfulness, understanding, and forward thinking in the response. You want to know a vendor understands your vision; has a clear strategy for making it happen; and anticipates things in the future you might not thought of as of yet.
5. Ask for references that are similar to you and your vision. You want to make sure that each vendor has a successful track record. Does this mean you should not do business with a vendor that has no customers? No. Every vendor starts with no customers. However, if you are working with a vendor that is relatively new you will want to nail down more specifics in your final agreement. Among those are making sure that the vendor adheres to all State and local regulatory requirements and that they provide all mandated reporting. If they haven't done so yet, but are willing to do it, make sure you have the successful completion of those requirements and reports



documented in your final agreement as well as language in your ongoing support contract that assures you that the vendor will stay on top of new regulatory requirements and that you will not pay an additional premium for those future modifications. If a report changes, you will want the vendor to provide those changes as part of your support plan. Completely new regulations will likely be exempt from such an agreement.

6. Ask for both one-time and ongoing costs. Make sure that you have all costs associated with the project documented up front. Many vendors charge travel and per diem in addition to their training or on-site time. This could dramatically increase the cost of your project. It is recommended that you either demand that pricing be inclusive of travel and per diem or that some limit be put on them with a definitive explanation of how many on-site days will be provided and what the anticipated travel and per diem costs are likely to be. You do not want to find out that your project winds up over budget because of unsuspected costs that were not well defined in the vendor's response. It is also recommended that you require that optional items be provided in a separate document. The vendors may have other products and services that might interest you and you'll want to know about that. What you don't want is any misunderstanding as to what is included and what is optional and will cost more. Indicate in the RFP that the vendor is to determine what products and services will be required to meet your vision and that those alone should be proposed and quoted. If they believe there are other products and services that you might find attractive they should provide that proposal in a separate document. That way you will know exactly what you are evaluating.
7. Ask for information on the history of the company and the background of the management and implementation teams. If it's a new company you'll want to know that. If it's a company that's had a name change you'll want to know that. If it's a company that is a subsidiary of another corporation you'll want to know about the parent organization. If the company is using third party vendors in its proposed solution you'll want to know about them as well. In short, you'll want to know everything you can about the company, its past, and its corporate structure. It's good to know how many people will be on the implementation team and about their backgrounds. You'll also want to evaluate corporate management to make sure that there is nothing that stands out to say that there might be any problems. All this information also allows you to do thorough checking using an internet search engine to make sure you know what others are saying about the company and its personnel. Your goal is to have no surprises. If you find something derogatory it does not mean you should eliminate the vendor. Anyone can say anything on the internet. You will want to discuss it and make sure you're satisfied with the vendor's response.
8. When you are checking references you will start with those organizations that the vendor has provided. They will likely be excellent references. Ask them about their selection, the other vendors they looked at, and how things continue to go. Then ask them who else they know that uses this vendor's products. These are the people with whom you really want to talk. These are clients that the vendor did not put forward as references. As you talk with these newly found references you will want to ask them who they know that uses this vendor's products and drill down even deeper. Your goal is to find less than ecstatic clients. That's right. All vendors have them. What you want to understand is what went wrong and what steps did the organization



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and the vendor take to resolve them. You might find that doing something different on your end during implementation will eliminate the possibility of the issue occurring. You might find that you need a service or product that the vendor is not proposing in the initial solution. The main thing is to make sure you know what might derail a project and avoid it. You also want to know how the vendor responds to challenges and adversities. Remember, you're partnering with this vendor for years to come. You want to make sure you have a partner that can work with you.

9. Establish and document a project schedule at the beginning of the project. Beware of optimistic schedules as they will only result in an unsatisfactory experience. Find out during your reference checks how well the project progressed against schedule and what problems arose that delayed it. Be prepared before you agree to a schedule so that it's achievable. Look at the schedule and make sure it progresses in a logical fashion. You will not want to roll out capabilities beyond the initial departments until those departments are up and running without issues. You'll want to pilot capabilities that extend the ERP out in the organization to make sure you have anticipated changes in process and how to handle emergencies before you try to bring those departments that are less than agreeable on to the new system. Give yourself plenty of time. What typically happens is that the selection process takes more time than anticipated and then organizations try to rush the implementation to meet a date that was originally targeted. If it takes until March to properly implement a project that you originally wanted to see live in January, then so be it. You can't rush success.
10. Remember to celebrate success during the project. Establish milestones that are measurable and then celebrate the achievement of each one of them. Take a moment before you proceed to the next. The implementation of an ERP system takes serious dedication and an extended time frame. Break it into pieces and celebrate as you achieve each one of them. That way you will get a sense of accomplishment along the way that can regularly re-energize the project. You will find that you and your staff will lose energy during the process. By taking a moment and celebrating milestones you will find that each phase of the project becomes more manageable and more enjoyable as it encompasses a more limited amount of time and expenditure of energy to see success.
11. When the project is completely live go back to your original vision statement and analyze whether you have achieved your goals. During a project you will find that you begin to look forward and at the conclusion you could feel like you have achieved your goal when you did not or you might feel like you did not achieve your goal because you now have a new vision. At any rate, you will want to analyze whether you have achieved your original vision. If you have not you will want to discuss this with your vendor to determine why and what can be done about it. It might be that you changed your mind along the way. It might be that you and the vendor have forgotten some aspect of the vision that can be remedied. You will want to evaluate your and the vendor's performance on the project; fully debrief it; and determine how to proceed. Much like the organization that an ERP functions within, it's never static. Things continue to change and as you complete one project you are likely to start looking to start another.



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So, good luck. There are a number of paths you can choose in your quest for an ERP. While the topics above have been segmented based upon each methodology, most if not all of the items are applicable to every project not matter the method used during the selection process. It is hoped that the foregoing discussion has provided some insight into what to look for and manage and how to proceed on each of these paths. There are many ERP systems and many ERP companies out there that offer sometimes similar and sometimes very different solutions. Your job is to try to determine which of those solutions best fits the needs and the budget of your organization. It's not an easy task, but it is achievable. It all begins with your ability to describe the limitations of your current system and how you envision a new system performing. Then it's a matter of matching up solutions to your vision of success and ensuring that the implementation is successful.

The best advice that can be offered is that you never plan to fail, you just fail to plan. The plan starts with and ends with a statement of your vision of what your organization and the system will look and perform like when the ERP implementation is complete. Whichever path you choose make sure you heed the advice and follow the steps to success.

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