

ERP selection guide for small and mid-market businesses

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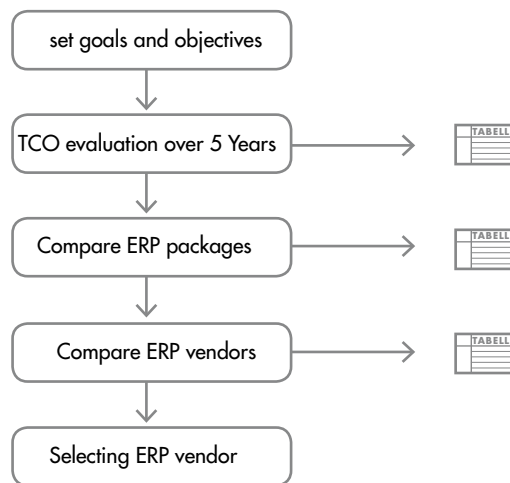
ERP selection guide for small and mid-market businesses

Small and mid-market methodology

Every year, more and more companies face the challenge of selecting a new business software, especially if they are selecting one for the first time. Whatever the reasons for selecting a software, there are basic criteria and cost considerations that a company should take into account. The goal should always be to compare several ERP vendors against each other in terms of long-term cost and software quality.

ERP selection guide

A mid-market methodology



Goals and objectives for selecting a new business software

What is the best way to select new business software? What are the company objectives related to the ERP implementation? What are management's goals? Choosing an ERP system deserves high priority and should be supported by the entire organization. Acceptance of a new IT system is much better if key users are included in the selection phase. Planning the ERP selection and the implementation process is the first step.

A methodical selection process helps the company to determine if an ERP system supports their internal and external business processes. During the ERP evaluation phase, attention should be paid to the degree the ERP system is able to adjust to the company's specific requirements and how the future users rate its user friendliness. Prior to the live ERP demonstration, ERP vendors should have the opportunity to familiarize themselves with the company, its operations and processes. This approach will improve the effectiveness of the demonstration. Actual company data should be used and existing processes should be considered during the live demonstration in order to simulate real working scenarios. Last, but not least, the question of how the ERP system can address future requirements (adjusting to changing regulations/laws and adding international subsidiaries) is of paramount importance. Some ERP systems, for example, provide scalable platforms which can be continuously expanded by frequent and incremental risk-free upgrades.

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TCO evaluation for ERP systems over 5 years

ERP deployment costs should always be calculated over a period of at least 5 years. A period of 10 years is even better since companies generally rely on their ERP system for more than 10 years. The evaluation should be based on the TCO approach (Total Cost of Ownership). The TCO concept was established at the end of the 1980's and provides a holistic view of an investment. It enables a comparison of several alternative investments, as well as a rational definition of ROI (Return of Investment). The long-term operating cost of the ERP software is of special interest in the selection process. Often apples and oranges are compared with each other, as often ERP vendors frequently fail to disclose the real cost of future upgrades during the selection phase. In fact, the total cost of some ERP system upgrades may approach those of a new ERP implementation. Therefore, it is important to ask the ERP vendor to disclose the costs and ramifications of future upgrades.

Focus on “must-have” ERP functions

Most costs of an ERP deployment relate to its implementation. Those costs are the vendors' service charges on one side and the internal resources in terms of time and effort, spent by the company on the other side. To implement an ERP system quickly, efficiently and within a limited budget, it is recommended that you focus on the “must-have” functions essential to the company's business processes and goals. Functions should be categorized into those that are absolutely necessary on the “go live” date of the ERP system, and those features that can be implemented at a later point in time. Common mistakes are to define functions based on the way older systems used to work or to base the requirements on high-end systems implemented in Fortune 1000 companies, that often work very differently than small and mid-market businesses. The latter approach often results in a functional overkill and a longer implementation period. It makes sense to define priorities for each function in order to focus on a fast and efficient implementation. Once your company is sufficiently trained, has gone live with the software and has tried the best way to use the system, usually, a large portion of the initial requirements will be dropped from the “wish list” since they are no longer needed or are insignificant in the company's business processes.

Industry and ERP know-how

ERP vendors who have been operating in the ERP market for some time often have a broader knowledge of industry-specific requirements than other vendors with less experience. The experienced vendors understand the typical implementation challenges and pitfalls, and how these can be addressed. Their industry expertise can be leveraged to increase a company's productivity. Experience in specific industries should come with an effective implementation methodology which has been refined and optimized over time.

ERP Software upgrade path

Companies are constantly changing. A few years ago processes and operations were different to those today. In five or ten years the company will also be different from now. They are strongly influenced by technological progress. Just imagine the impact of e-mail, SMS,

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Blackberries and e-Commerce in today's market. An increasing number of companies aim at a continuous improvement process (CIP) which constantly monitors business performance and sets new productivity objectives. The ERP system should facilitate and adapt to this continuous process. The company should be able to upgrade the software with minimal effort and to customize it according to its individual requirements. In the selection process, a rigid system which can only be upgraded with a lot of effort and at high cost, and corresponding risk, deserves a lower rating than a highly agile solution. Without highly scalable and adaptable software, the future success of the company is at risk. The company should also take into account that a continuous upgrade path will provide new features and functions that will maintain and improve the company's competitive edge. No upgrade for small and mid-market companies should last longer than a day or weekend and must not endanger production and competitiveness. Customizations and modifications should always remain after upgrades to keep a high acceptance by key users.

Technological integration level of ERP systems

When looking at the technological level of integration, three aspects should be taken into account to guarantee the life expectancy of an ERP solution:

- **Functional integration level**
There are various degrees of integration in ERP systems. A highly integrated system integrates all the core functions of the ERP system, such as materials management, production planning, accounting and CRM in its business logic. Highly integrated systems, therefore, provide higher investment security than other solutions consisting of interfaced (pieced together) components.
- **Openness towards third party solutions**
An ERP system has to be able to easily integrate "best of breed" third party solutions, such as SCM, Human Resources, Business Intelligence or PLM software. The availability of the necessary interfaces should be checked during the system selection.
- **Platform independence**
Technological dependencies are by their very nature constricting and therefore costly. The basic rule is: "the more independent the software is of operating system or hardware platform, the better".

ERP continuity and consistency

ERP vendor continuity and software consistency go hand in hand. The economic stability of the ERP vendor and its future strategy is of fundamental importance when selecting an ERP system. Support structure and ongoing software development have to be ensured over many years. Requesting a vendors balance sheet, or accessing public records will provide key information about the financial stability of the vendor. If a vendor offers more than one ERP package it is recommended to ask for a written statement regarding product strategies and future roadmaps of each proposed software package. The blog: www.erpgraveyard.com for example, shows which software packages have been acquired or have disappeared from the market.

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Customer references – access to ERP users

A high market share or an extensive feature and function list of the software is in no way a guarantee of high quality customer support or an indicator of high customer satisfaction levels. Actual customer references are by far the best way to assess these. Talking to a number of users of the ERP package about their experience with day-to-day operations provides valuable information. A thorough survey of ERP users will clearly indicate where the strengths and weaknesses lie. Published ERP user satisfaction surveys also provide up-to-date comparisons of the main vendors in the market.

User friendliness of ERP systems

How many minutes does it take to create a quotation in the ERP system? How many clicks does it take and how many screens do I have to open? It should be possible to easily customize the ERP system to company and user-specific requirements with minimal effort and at a reasonable cost. A system designed towards “a high performance workplace increases the user’s acceptance of the software and the company’s productivity. Flexible systems save a lot of money and time even in the implementation phase. After each software upgrade, it is important that the customized solutions already implemented remain in operation and may be enhanced.

International ERP implementation

Many small and mid-market businesses already have established international operations or soon will have. SMEs should therefore take their future global business into account during the ERP selection. Some important aspects of international deployment have been listed below:

- Can the system be operated and supported in multiple languages?
- Does the vendor have a track record of successfully international implemented projects?
- Does he have a Best Practice implementation methodology?
- How is the coordination between multiple vendor offices and/or partners worldwide?

The ERP evaluation workbench

The new ERP package will ideally accompany the SME for the coming decades and maybe even around the globe. There always be a „gut feeling“ involved in the selection process. To provide potential buyers with a comprehensive tool to compare various software packages, the tables listed below were developed. They consist of a TCO assessment and an evaluation of ERP quality aspects. While making no claim to be exhaustive, the below ERP evaluation tables can be of valuable assistance in the software selection process. Quality ratings may be entered using scales ranging from “1” to “10” (“10” being the best).

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TCO Overview

	ERP software				Hardware		TCO
	Licenses	Implementation*	Maintenance 5 years	Upgrades 5 years*	Server	PC & Network	Overall evaluation
ERP vendor 1							
ERP vendor 2							
ERP vendor 3							
ERP vendor 4							

Sample calculation with 4 ERP vendors

* Also consider company internal costs (time and resources)

ERP Software Quality

	ERP software quality						Overall valuation quality
	Must have functions	Nice to have functions	Scalability & upgrade path	Technological integration level	User friendliness	International aspects	
ERP vendor 1							
ERP vendor 2							
ERP vendor 3							
ERP vendor 4							

Evaluation on a 10 level scale

Sample evaluation with 4 ERP vendors

ERP Vendor Quality

	Quality of ERP vendor				Overall evaluation
	Industry specific knowledge In the market over how many years?	Number of customer references?	Consistent Best Practice methodology?	Company philosophy and business model	
ERP vendor 1					
ERP vendor 2					
ERP vendor 3					
ERP vendor 4					

Evaluation on a 10 level scale

Sample evaluation with 4 ERP vendors

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Quick ERP selection check list in chronological order:

1. Set goals and objectives for ERP implementation
2. Appoint an ERP selection team and include key users in the selection phase
3. Find out which ERP systems are able to be adapted to company specific requirements
4. Distinguish between “must-have” and “lower priority” functions
5. Concentrate on core functions and on a proven implementation methodology
6. Talk to several key-users about their experience with the ERP package
7. Can the software be easily upgraded? Find out costs and duration of an upgrade?
8. Is the software able to easily integrate third party solutions?
9. Ask for the vendor’s company strategy and software roadmap.
Will the ERP vendor still be in business in 5 years?
10. Ask for a live demo using real data and performing typical tasks
11. User friendliness - How many minutes does it take to perform typical tasks?
How many clicks does it take and how many screens do I have to open?
12. In the event of international deployment: does the vendor have proven experience with international projects?
13. Compare vendors over, at least, a 5 year period using the TCO table
14. Compare several ERP vendors and their packages in terms of quality criteria
15. Listen to your gut-feeling