

# The ERP Selection Process Survival Guide



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## I. INTRODUCTION

This guide is designed to provide you with an overview of the steps that an organization should be prepared to go through in order to conduct an effective and successful ERP solution evaluation. The process of selecting an Enterprise Resource Planning (ERP) system has never been an easy one. Because of the potentially overwhelming level of detail that must be addressed, it is all too easy to overlook key steps in a systems evaluation process. Omitting key steps can have potentially disastrous consequences. Recognizing exactly what these steps are, preparing for them, and following a predetermined evaluation plan can help to insure an efficient and successful selection process.

An informed, educated, and prepared organization can enjoy the many benefits of an ERP solution faster and with less pain than one that simply reacts to situations as they arise. Keep in mind that above all else, knowledge and communication are the key elements to a successful evaluation.

## II. WHAT IS AN ERP SYSTEM?

An ERP solution is an integrated business system that provides a company with the decision support tools needed to effectively manage and grow its business. These support tools provide an organization with access to the information that it needs, when it needs it, in a user-friendly format. The system as a whole allows each individual to work more effectively with a higher degree of responsiveness and should provide all of the information that each individual within the organization requires to do his or her job. When a change occurs at any point, that information is updated accordingly, alerting key personnel to changes in status when required. Management then has the ability to view this activity and is thus able to make decisions based on current data and information.

## III. WHEN TO CONSIDER AN ENTERPRISE-WIDE SOLUTION

If an organization is experiencing one or more of the following business conditions, it is time to seriously consider implementing an ERP solution or replacing the current one:

- Fast and uncontrolled growth
- The company's exact financial performance is unknown
- Unknown or inaccurate job costs
- Inventories that do not meet or far exceed production requirements on a consistent basis
- Duplication of effort in order to capture vital data that impacts employee efficiency

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- Commonly setting inaccurate customer expectations
  - Promised delivery dates are regularly missed
  - Unknown operations performance
  - The current system is negatively impacting the organization's ability to grow
  - Little or no ability to forecast and plan production requirements with any degree of accuracy

## IV. SYSTEM EVALUATION

The actual process of evaluating and selecting an ERP System is never the same for any two companies. Unique internal conditions are going to determine exactly what work needs to be done. There are, however, common steps and exercises that a company and its evaluation team should take. Some of these steps include:

- A. Selection and empowerment of a cross-functional Evaluation Team that includes the best and the brightest individuals from each functional area of the company. These individuals should understand the inner workings of their respective departments thoroughly. As the evaluation moves forward, they can fairly and accurately represent and communicate the needs of the functional unit regarding a new enterprise system. They also need to understand the importance of information sharing and integration, as well as embrace and champion positive change. The team should have as its leader an individual from the company's executive management team who reports directly to the CEO.
- B. The members of the team need to learn the reasons and conditions that exist within the company that have led to the decision to evaluate potential enterprise systems; they also need to know what the final solution might look like. Additionally, each member of the team will need to educate the other members about the functional area of the company they represent.
- C. The company's resources need to be identified and assessed. The intention here is to evaluate the areas that are most critical to the business's ongoing growth. In addition to those areas that may be unique to your business, the following also need to be assessed:
  - Personnel – determine how the company presently uses its personnel; define the organization's strengths and key areas that need improvement.
  - Technology – understand what the business's current information management infrastructure is. Looking inward, it is important to identify how the current IT infrastructure may be limiting the company's growth. The key will be to target those areas where potential enhancements can most profoundly affect the business in order to facilitate the desired growth. The end result will be an outline of the current technology infrastructure and what it will need to be in the future.

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- Workflow – The critical processes and workflow issues within the company have to be analyzed. The critical operating decisions that are made on a daily or ongoing basis need to be identified. Consideration needs to be given to not only how these processes actually work today, but also how they should work as the company grows.
  - Performance Measurements – A business model for success needs to be defined along with the metrics that will be used to measure business performance. Establishing these measurements is critical not only to define the organization's growth potential, but also to help identify the path that needs to be followed in order to achieve the desired degree of growth.
- D. The elements required to meet the company's goals have to be defined. This can be accomplished by identifying the requirements for success. These requirements will then be used as the guideline for selecting an ERP solutions provider. The steps involved in this process include:
- Identify the limitations or problems with the current business approach, and pinpoint those situations that create the greatest barriers to the company's success.
  - Identify the organization's core competencies – those factors that give the organization a distinct advantage over its competition.
  - Identify the requirements for a solutions partner regarding implementation, features, functionality, service, tools, ongoing customer care, and support.
- E. Identify the most important system functionality when evaluating and selecting the right enterprise solution for your organization.
- F. Additional items that need to be considered when evaluating potential solutions:
- Will a solution that is industry-specific in design be a better fit than one that is generic?
  - Is the vendor's product scalable to accommodate rapid or unexpected growth?
  - Are the solutions that are under consideration configurable to meet the specific needs and business processes that exist now, as well as new ones in the future?
  - Is the solution flexible, so that it can operate on a variety of IT platforms to accommodate possible changes in the future?
  - Are the product functions and features available now? If not, when will they be available and how important is it to have that function or feature?

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## V. SOLUTION SELECTION

By now, the unique needs of the organization and the critical functional requirements necessary in a new enterprise solution have been identified. The next step is to define the process that will be followed when evaluating and finally selecting the right software package for the company. By defining the path to follow in advance, the company's team will avoid extended and potentially costly delays in the evaluation process. These steps should include:

- A review of the potential software products that are a “fit” for the organization's environment
- Elimination of those packages that do not meet the specified needs and requirements
- Creation of a manageable list of vendors for final review – typically three to five
- Scheduled detailed product demonstrations
- A check of your vendor's references
- A visit to a “like” customer site of the final short-listed vendors

At some point before you conduct your final contract negotiations, it is strongly recommended that you participate in a Company Audit conducted by your final vendor of choice. This audit generally involves the following:

1. The company audit would be conducted by the chosen vendor's professional services staff and, depending on the size of the evaluating company and breadth of the system that is being considered, should take approximately three days. The end result of this exercise can be used in the future by executive management as a checklist to assist in another software selection process, or as a documented basis for the CEO and CFO to effect policy/procedure changes, as well as for estimating the cost and time required to implement any ERP or enterprise-wide system.
2. The documented report is then presented to the company's executives, along with discussion of the phases and costs of a funded Pilot conducted by the vendor of choice.
3. The Pilot is accomplished by loading the software and data on a “time-sharing basis.” Ideally, this will not be a large effort and will help the company decide to proceed with the implementation of the first ERP system modules.

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4. The audit will also result in a project plan, listing the responsibilities that fall to both the vendor and the company.

It will then be up to the Evaluation Team to select the package and the vendor that is the best fit for the company's future growth and stability and present that candidate to the executive management or senior decision-making authority for final review and acceptance.

## VI. KEY POINTS TO REMEMBER

In today's increasingly competitive business environment, many companies are driven to seek various ways to increase their effectiveness and ability to stay ahead of (or keep up with) the competition. This situation may drive many companies to invest in a new ERP system as a step toward this goal. Moreover, recognizing that there are certain aspects associated with its implementation in the small- to medium-sized company, the CEO and CFO should be involved in the selection of an ERP system from the beginning, with the following understandings:

1. The system will provide much more information to them and to their managers than is presently available.
2. The system that is selected will enable most of the organization to become more productive, while at the same time requiring *more* work of some staff because of the need to maintain all of the additional information.
3. The system will directly or indirectly create improved business processes, even allowing for organizational changes that previously may not have been considered.
4. The CEO's involvement *will* be required. For example, he/she may need to issue corporate (cross-departmental) edicts to improve fundamental business metrics, such as Bill of Material accuracy or customer delivery performance, and would need to sanction organization/policy changes that facilitate those edicts. The key will be to make that involvement *effective*.
5. Effective CEO involvement in the ERP project will keep him or her at arms length from daily details. An effective Project Manager, *who reports directly to the CEO* and who has far-reaching company influence, will help keep CEO involvement balanced.
6. The time required to implement an ERP system is usually underestimated.
7. The hardware used to support an existing system must usually be replaced or significantly upgraded, and this can represent a significant investment on the part of your company.
8. The IS staff that will support the software and hardware will require more training to be effective intermediaries between the customer and the ERP vendor.

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9. The *internal* costs (staff training and time off of other Non-ERP projects, as well as opportunity cost of CEO involvement) can even approach that of *external* costs (software, hardware, and consulting).

It's little wonder then that the evaluation and selection of an Enterprise System is considered a big and troublesome effort. This is especially so in a small- to medium-sized business where the CFO doubles as the head of Administration and Personnel, as well as Finance, and where the CEO/President is effectively the COO. Key staff members may have discovered through prior, tearful experiences that ERP implementation is far more than implementing some desktop tools such as Microsoft Office.

Therefore, at some point during the evaluation of an ERP solution, the CEO and CFO may decide to delay the selection and implementation of a system they know will provide them with a great number of benefits. The realization of the time investment required from both executive and management staff can inhibit the decision to move forward, even if the need for a system has already been well established.

It is often not a question of the cost of the ERP software, but rather the *perceived level of effort* and attention required of the top decision makers, as well as key staff members, that dissuade their moving forward. This is especially true for those who have previously experienced painful and costly ERP implementations, and who may be hesitant to even *start* the software selection process until they are sure they can evaluate, buy, train, and implement in a fluid manner. For those who have not personally experienced “ERPain,” realization of effort levels probably came by the end of their evaluation, causing the postponement of the actual software purchase.

What is almost never considered, however, is the cost of not implementing a new system. The easiest way to figure out that cost is to conduct a cost benefits analysis. This outlines the bottom line savings that can be realized by implementing a new system. The longer an organization waits to purchase and implement a needed system, the more money it loses by not generating the savings that the new system brings.

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## CONCLUSION

Between countless software vendors, systems integrators, and consultants, ERP selection can take on many forms. However, the advice and steps described in this guide will help to increase awareness regarding the realities of ERP selection. If your company is actively looking at ERP solutions or is planning to begin the selection process, your business will be best served by a system that is chosen based upon your particular needs. Relevant Business Systems' experience spans 20 years in the enterprise software business, with more than 300 companies implemented. If you feel that you could benefit from our knowledge and expertise, or if we can answer any questions regarding the ideas and suggestions contained in this booklet, please let us know.

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