Selecting an ERP solution: a guide

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Looking for the right ERP package for your small to mid-sized business (SMB) can be a daunting task. Although a fair amount of information is available on the Internet about the actual software packages themselves, there is little advice on how to develop a good, simple strategy to evaluate and choose the right package for your company. This article is intended to provide some of that much-needed guidance.

Create a selection committee

The first step in choosing an ERP package is to establish a software selection committee. Members of this committee should be decision makers in the organization representing all relevant departments. Here are guidelines to follow:

- Elect a committee leader. Don't make the mistake of equating software to just IT. Choosing an ERP package is a business decision, not an IT decision. IT does play a supporting role, however. But the leader must have a deep knowledge and understanding of your business and industry, and should have the authority to bring about change.
- Members of the committee need to understand and make the time commitment required during the ERP selection process. If they cannot commit the time, other representatives need to be considered.
- At least one member of the committee must have authority to sign a contract and write a check. If the final decision maker is not a member of the committee, that person will not gain a full understanding of the issues that other committee members will obtain through extensive meeting discussions. Because selecting an ERP is a big decision for any company, it's important to have the final decision maker involved as much as possible.

Define the problem

Next, you must define the business problems you want to solve. Many companies make the mistake of trying to solve business problems with software. Software is not a part of this step. Develop a list of what you want the company to achieve, not features of the software. In other words, avoid creating a list with items such as the need to email a PO to a vendor, or the need for a report that tells who didn't clock in today. Develop a list of achievements such as:

- Provide my customers with accurate ship dates.
- Create accurate job costing quotes.
- Maintain a 98% accurate inventory.

Achievements are more far-reaching and involve training employees and streamlining business processes that can transform your culture in a positive way and increase profitability.

Focus your vision

The next step is to prioritize your list items. Select the top three to five items that your company needs to achieve. NOTE: This does not yet include software, but is a focused vision for your company.

Do the executives in your company agree with your vision? If they do not agree, either convince them of your wisdom so that they do agree, or change the list. In the end, the team must agree on the list because that list contains your goals. You will judge all software packages on how well they will help you achieve your goals.

Regarding the items on your list that didn't make the final cut, they still have value. We will address those items later.

Reach the first milestone

By creating a vision, you have achieved something a vast majority of search teams have not: You have goals. As implausible as that sounds, it's often true. Usually companies (or the consultants they hire) create long lists of items that the software must do. The items are grouped by function (order entry, shipping, etc.) and then graded by level of importance (must have, nice to have, etc.). These lists don't replace the fundamental need for goals, and may create more noise and confusion, not clarity.

Expand the investigation

Before beginning the search for a vendor, you need to make a few more decisions:

- What type of database platform do you want to run your software on? Are you looking to run on a SQL Server database? an IBM database? You can avoid wasting time by looking only at software that runs on the platform you choose.
- How many users do you believe will be on the system? Licensing fees can be based on named users (the number of unique users that will use the system) or concurrent users (the maximum number of users on the system at one time). At this stage, you need only an estimated number of named and concurrent users.
- Define your business. Are you make-to-order? Make-to-stock? Mixed mode? Process? You need to look only at a package that fits your business model.
- What is your budget? There are plenty of solutions available at many different price points. Devise a ballpark budget that includes software and implementation services and avoid wasting your time investigating software that you can't afford.

Start the vendor search

Armed with your goals and some basic statistics on your business, you can now begin your search for an ERP vendor. There is no objective recommended list of software companies that will meet your needs and save you the trouble of research to create your own list of possible solutions, however. You can search the Internet and find various websites providing lists of applications, but remember that the companies with their ERP products listed on these sites have paid to be on the list. In other words, they are no more than the website's top advertisers. (Note all the banner ads on these websites.) Product #1 paid more advertising dollars to the site than product #10—not because of extensive independent research conducted on these products to make the top-product claim.

But should you avoid these websites? No, they are still a source of information on what ERP products are available. Many of them have informative white papers to help you address your specific needs. Just realize that advertising dollars heavily influence any software rankings these websites provide or any products that they recommend for consideration.

So the reality is that you need to do your own research. But much of your work is already done: You have a list of goals, the platform you want to run on, an approximate number of users defined, and you know your business model. Start searching the Internet with your favorite search engine for ERP products by using keywords such as "ERP" and "manufacturing software." Also, start looking at software development companies' websites. By design, these sites cast a wide net. Choose 10 to 20 that you believe have an ERP package to address your needs.

Contact vendors

The next step is to contact each ERP vendor on your list. Email is probably the best method of communication because it allows you to be most consistent in your message, and also allows the vendor recipient to pass all the information you provide to the appropriate person in the vendor organization. In your email, let them know that you are heading up a search for an ERP solution, then provide the information you have already defined:

- Your business model
- Approximate number of users
- The size of your business (revenue or number of employees)
- Software platform
- The top three to five goals that the software needs to address

Ask the vendor if it has a possible solution for you. If the response is negative, ask for a recommended solution. If the vendor recommends one that is not on your list, add the new vendor to your list and contact it.

For any vendor claiming it has a solution for you, that vendor needs to provide 10 references. Let the vendor know that you will not be contacting the references; in fact, you will not need contact information. But you do need the company name, number of employees, yearly revenue, and business model.

Why do you need references? At this point, you will not be judging the performance of the software and the level of customer satisfaction, which you will do later.,Now you need to determine whether the vendor's reference list includes the kinds of organizations matching your profile.

Example: Assume you are a 100-employee manufacturer with revenue of $25 million a year. Are the vendor references also manufacturers? If they are not, that's a red flag. (NOTE: Their products don't need to be similar to your products. The matching category is that they simply manufacture.) What about the size of the reference companies? If a reference has revenue exceeding hundreds of millions of dollars per year, you are not in the same league as that reference. If many of the references are like this, that's a red flag. The same truth applies if the reference companies are too small. The point of the references is to see if the prospective vendor has successfully sold to companies that "feel" like your company. Because every ERP vendor has a "sweet spot" that its product is geared toward, you want to make sure that you are in the sweet spot.

In addition, require each vendor to give you a ballpark price for software and implementation. The goal here isn't to hold them to a price; it's to find out whether, at a high level, you can afford what the vendor is selling.

You can expect that many of the vendors will want to contact you by phone after they receive your email. This isn't necessarily a sign of a pushy salesperson, but may be a sign of a sincere one who is taking your inquiry seriously. Take the call. You'll be able to judge the type of person that he/she is during the call.

Thin the herd

You may want only four to six possible vendors before you start the next step, which involves spending time with each vendor. The main goal in each step of this process is to be thorough. If you invite too many vendors, you may become overwhelmed and start to take shortcuts. Select the top four to six vendors that have provided solutions to companies similar to yours.

Observe, don't direct

At this step in the process, many companies make the mistake of trying to control the process by telling the vendors what to do: "Here is your demo script, here is the allotted time for each section, here is the data to put in the demo database, and this is the date when you will show us your product." Companies easily fall into this mode of operation because it appeals to their sense of order and fairness—an "apples-to-apples" approach.

The problem with this logic is that it sets up a scenario where every vendor ends up looking the same. How would you differentiate them and condense the list down to two possible vendors? The unfortunate answer here boils down to beautiful screen colors and fabulous features and functions that don't necessarily help you achieve your goals. In the end, salesmanship becomes the driving force behind the decision. And the goal of controlling the process was to avoid this scenario.

To be in control, avoid trying to control the process. Let the vendors who made your list know that they made the cut. Then ask them how they would like to proceed.

Jumping to the end of the process, assume you just chose an ERP package. What total package are you buying? Besides the ERP software, you are entering into an implementation relationship with your vendor. The vendor will be working with you to help configure your software and develop procedures to meet your business needs. During your software evaluation process, you also need to be evaluating how your vendor proposes to use the software to address your business needs.

Ask your vendor staff how they would like to proceed, but remind them that you want to see how they would address the top three to five business goals with their software, and that the first demo needs to be limited to addressing these goals. If you don't like how they would address these goals, other features of the software don't matter. How the vendors conduct themselves from this point on will give you keen insight into which vendor you will partner with.

Remember: Observe, don't direct. Here are some questions to ask yourself:

- Do the vendor staff want to visit your company and get a better insight into your issues, or do they just want to demo?
- Do your vendor staff ask for data to put into the presentation?
- When they do demo, are they addressing your top three to five business goals, or are they running through a canned demo?
- Do they understand your business issues, or do they just know their software?
- Are they addressing your goals, or are they showing you what they think is important?

Remember that the biggest mistake is to offer guidance (e.g., offering demo data to all the vendors). Set the goal for the vendors and then observe and judge.

Begin demonstration: round one

Take good notes at the demo. This is critical because after the passage of time, the different solutions you have seen will start to blend together. It's also important to have every selection team member viewing the entire demo. Discuss each demo as a group within 24 hours of the demo. Document everyone's responses, and keep a running demo-to-date ranking of which solution is in first place, second place, etc. Reminder: The only criterion for the ranking is how well the vendor handled your top three to five business goals. Bells-and-whistles features do not have a place here.

Don't be surprised if you or your committee members start thinking that a few of the solutions you saw could work. This is a normal response, usually elicited when the focus is just on the software. But if you fold the attentiveness, preparation, and professionalism of the vendor into the judgment, you will start to differentiate the products.

Thin the herd again

After your chosen four to six vendors have completed their demos, it's time to make another cut. How many vendors should remain after the cut?

Often, companies like to reduce the list to three vendors. Although this is conventional wisdom, the correct number has much to do with results from the first round of demos. Was there a vendor that the entire team thought far exceeded everyone else, based on meeting the three to five business goals? If so, move forward with one vendor.

If during the one-vendor step you don't like the set of results, you can always invite another vendor to the final round. If this is not in your comfort zone, or one vendor doesn't stand out, choose two vendors. Try to limit your selection to no more than two vendors.

There are many reasons for selecting two vendors only; time commitment is one. The next steps involve a deeper look into the software and vendor, reference calls, and site visits, in which you need to be thorough, avoiding shortcuts. Limiting the selection to two finalists reduces the time invested by your company in making the final decision, and also reduces the amount of irrelevant data and other distractions that start to creep into the selection process. Lastly, it ensures that the product you select is supported by the majority of your selection committee.

Let's look at the math on the selection process. If you have nine members on your selection team and four like Product A, three like Product B, and two like Product C; Product A wins. The result, however, means four members get what they want, but five members don't get what they want. So the majority of the committee don't want the software that is chosen. That can lead to a bad dynamic during implementation.

Make a closer examination

Your goal at this stage of the process is to get an even closer look at the vendor and the software solution that your vendor is proposing, so you need to request a complete demo of the software.

The rule for the first demo still applies: Observe, don't direct. To date, you have only provided the top three to five goals to the vendors. Provide your vendor with the remaining goals from your list. Let the vendor staff know you want to see how the product would handle these goals. Also, let them know that you want to see their entire product, but only the modules that they are proposing, and only the version of the software they are proposing. To know exactly what they are proposing, require a written proposal (pricing for software modules and implementation services) from your vendor before the final demo. You don't want your evaluation of the software influenced by seeing something that you are not going to buy.

One last point: Get a list of references, with contact information, from your vendor.

Check references

While the vendor is preparing for the final demo, you can be checking references by phone, but do not plan a site visit yet. In fact, you will find this step to be a perfect learning experience that will help prepare you for the demo. You will hear what the references like and dislike about the software and the vendor—items that can be further explored during the demo.

Guidelines for the type of information that you should gather from the references are:

- What type of business is the reference?
- Explain the top three to five goals you are looking to achieve. Did the reference have similar goals? Were these goals achieved? If not, was the software at fault, or was it an internal problem?
- What are the greatest benefits the reference saw after the software was implemented?
- Were there any surprises?
- How was the implementation support? Was the cost and timeframe in line with what was discussed and quoted? If it wasn't, did the scope of the project change, or did the reference feel that the vendor underestimated the work required?
- If the reference had to repeat the process, would the company choose the same ERP package?

Under normal circumstances, you will hear some negative comments during your conversation with the reference. (Be suspicious if you don't hear any negative remarks. If you don't hear any, completely disregard the reference because it is likely that reference is paid.) Some of the negatives you may discard because they don't apply to you, or you don't consider the issue a negative. But what should you do with the negative information that concerns you? Discuss it with the vendor. Your goal is to learn as much as you can about your vendor and the solution it is proposing to you. With two sides to every story, you can give the vendor a chance to tell its side of the story. In the end, you can decide where the truth lies.

Begin the final demo process

The guidelines mentioned earlier are worth repeating:

- The vendor can only demo the version and the modules it quoted.
- Take good notes so that you won't confuse one application with another when discussing the pros and cons of each solution.
- The entire selection team needs to see the whole demo.
- The committee should discuss the demo within 24 hours of the demo conclusion.
- Stay focused. Evaluate how well the proposed solution handles your business goals. If a feature does not address a defined business goal, it's not a feature; it's noise. Tune out the noise, and focus on your goals.
- If you have two final vendors, schedule the demos to be no more than a few days apart to allow you to do a better comparison between the products. Also, avoid back-to-back demos because mental exhaustion will be a factor by day two.

Start the implementation process

The best software you find is useless if it is not implemented properly. Because it is critical for you to understand the vendor implementation process, schedule a separate meeting with your vendor to discuss it. If you try to tack on this discussion at the end of the demo, the discussion will be rushed because everyone in the room will be worn out from the demo. Another benefit of having a separate meeting is that it gives you a chance to discuss follow-up questions that are developed in your post-demo recap meetings, which need to take place quickly after the demos are complete.

Again, the rule is to observe, not direct. Was the estimate of services to be provided created through a collaborative process, or did your vendor inform you of what services you need? If a collaborative process is lacking, that is a red flag. There is no canned approach to implementation because the variables are the levels of experience in integrated systems possessed by your selection committee team members. If many members of your team have experience implementing an integrated system, you will probably need less guidance than normal. If your team's experience consists of running a company off of spreadsheets, you will probably need more guidance than normal.

Decision time

What about site visits and negotiating the best price with the vendors? That comes after you make a decision, but before you sign a contract. There is a big difference between the two, and many companies mistakenly lump them together.

You have all the information you need to make a decision on which solution you feel would work best in your company. During this entire process, the focus has been on your business needs, and how the proposed solutions will address those needs. You have also observed how attentive the vendors are to your needs and how well you feel they understand your business, along with how successfully you feel they will be in assisting you in your implementation. In addition, you have gathered information from other customers when you conducted your reference interviews, and you have discussed any disturbing comments you heard with your vendors.

You don't need any other information, and it's time to make a decision. But you are not ready to sign a contract yet.

The final steps

The two final steps before signing a contract are conducting a site visit and finalizing the price. Let's first discuss the site visit, which is an optional step.

You have all the information you need to make a good decision. However, you may want to see the software in action before you sign a contract, especially if this will establish a higher comfort level for you or your selection committee.

Keep in mind that the company you will visit has its own business to run. Don't plan to spend the entire day exploring and discussing every detail of its operation. Your goal is not to implement your system on the visit, but to gain greater confidence that the software works as expected by observing a company that is actually using it.

The next step is finalizing the price. The reason to avoid getting your vendors to "sharpen their pencils" before you decide on which solution fits your company the best is simple: Final price is noise. This entire process is designed to keep you focused on the issues that are important to your company. To do this, you need to filter out the noise. You are about to enter into a long-term relationship with the vendor of your choice. Making a good decision is critical to your company—to say nothing of your career. Avoid clouding your decision with the allure of saving a few thousand dollars by picking one package over the other. That "savings" will quickly evaporate if you choose the wrong package.

Another element may enter the process. If a vendor believes its solution is not the best fit, it will lower the price because it has nothing to lose and everything to gain. If you allow price to enter your decision-making process, it usually becomes the center of attention. All the work you have done to carefully evaluate the solutions is quickly forgotten, and a decision is made on price. If you allow this to happen, you will have wasted all the time you spent on the reference calls, final demos, post-demo meetings, and implementation meetings, and simply informed the finalists that the best price wins.

The fear arises that you are giving up your negotiating power if you inform one vendor you would like to move forward. This is not a negotiating article (there are various guides on that subject), but here are the facts you can present to the vendor you choose:

- Our committee prefers your solution, but hasn't ruled out the other solution.
- We need to know what you can do for us to earn our business.
- The sale is yours to lose.

You should be able to come to a mutually beneficial agreement. If your chosen vendor becomes too difficult to work with, or starts introducing costs you were unaware of, you always have the option of not signing a deal and moving on. Again, this is highly unlikely because of the time, effort, and investment the vendor put into your process to reach this point.

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