

The ERP selection process

10 STEPS TO SELECTING YOUR ERP SOLUTION



The ERP Selection Process

10 Steps to Selecting your ERP Solution

The selection and implementation of a new Enterprise Resource Planning (ERP) system is probably the most critical IT decision you and your organization will ever make – it’s not an easy task identifying which of the available solutions will meet your organization’s evolving requirements. An ERP system will have a huge impact on the success and growth of your organization, so it is important to follow a selection process when choosing your system.

To help make the ERP selection process straightforward and effective, Unit4 has produced this useful guide that gives a step-by-step overview of the ERP evaluation process and highlights some of the key questions you should be asking suppliers and yourself.

10 Steps of the ERP selection process	
Step 1	Business assessment
Step 2	Appoint a selection team and follow a structured selection process
Step 3	Assess business requirements and resource constraints
Step 4	Determine selection criteria
Step 5	Find compatible vendors
Step 6	Communicate with potential vendors
Step 7	Create the request for information (RFI).
Step 8	Shortlist and demo systems
Step 9	Select your ERP system
Step 10	Formalize your project plan

Step 1: Business Assessment

“Why do we need an ERP system?”

This obvious question is the critical first step in explaining your requirements for a new ERP system – to the business, to your board and to any potential supplier.

Unless your current system is seamless, you should be able to identify a number of key requirements that are currently not being met or will need to be met in the future. You should also assess whether each requirement has a financial value and if so, what that value is – what are the benefits of meeting the requirement, and what are the risks if it is not met? Similarly, you should review all the project areas and applications of your organization and assess the impact that an ERP system could have on those areas and vice versa.

The types of requirements can be split into a number of categories:

Management information - How easy is it to access key data? Can the required reports be easily adjusted and run?

Efficiency – How effective is the current system? Does it streamline processes, or cause complications?

Cost Saving & Control – Does the current system actually help as well as provide data? Is the organization forced to hire external consultants every time it needs to adapt the system to changing requirements?

Growth – Does the current system facilitate growth and allow for a smooth response to change?

Front Office vs. Back Office Requirements – Does it make sense to bundle these requirements under one procurement cycle or are there sound business reasons for separating them?

Strategy Execution – Does the current application limit wider business decisions?

Reliability – How trustworthy and easy is it to maintain/improve the current system? Does the system improve the organization’s transparency or are there multiple versions of the truth?

Infrastructure – Does the application integrate with the rest of the organization’s IT? Does the organization currently use multiple incompatible systems and what are the implications of this?

Statutory Compliance – Does the current system support the necessary regulations? Does the current system have the agility to adjust to new requirements?

“What level of IT infrastructure and support do we currently have?”

When considering a new ERP system, not only will you need to assess the operational capabilities of your existing system, but you must also assess your IT infrastructure and support. Is your existing system a cloud solution, on-premise, or a hybrid of the two? It is essential that you consider the level of IT infrastructure that your organization has the capability to support, and thus what kind of ERP solution you should be looking for. Choosing the infrastructure model for an ERP solution is complex, with advantages and disadvantages to every possibility.

Therefore, a thorough examination of your options and support capabilities should take place early in the selection process. Some models even allow the ERP solution to migrate from on-premise to the cloud, and vice versa, as your organization shrinks or grows. If your organization faces change on an ongoing basis, and you have trouble predicting the level of IT infrastructure you will need in the long term, it is beneficial for you to study this option.

“What if...?”

For most organizations, change is inevitable and can create significant organizational and strategic

challenges. For that reason, it’s important to consider a number of different “what if” scenarios and evaluate the organization’s capability of responding to the following change drivers:

- Reorganization and/or restructuring;
- Mergers and acquisitions;
- New regulatory requirements;
- Business process change;
- Rapid growth;
- Emergency situations.

If the ERP system is not equipped to handle change effectively, these change scenarios can be very threatening and expensive, and might even impede the organization’s ability to take advantage of growth opportunities.

Of course, the benefits of change must always outweigh the risks of not changing, so you should consider what would happen if the business were to do nothing.

Not all issues have an easily quantifiable dollar value, though the impact (and cost) of continuing with an inadequate ERP system is likely to be significant. Asking this question will help you determine whether your wish to change is a desire or an urgent requirement.

Example:

One area to consider is whether or not the current system provides accurate and relevant management information, which allows for the discovery of underperforming areas. The risk of not having this information could allow a 'loss-making' area to go unnoticed, costing the company money every day.

Step 2: Appoint a Selection Team

“Who will make the decisions?”

An executive sponsor should be appointed as soon as the project is initiated who will oversee the project at board level. Generally, the project sponsor may not need to be involved on a day-to-day basis but will ultimately be responsible for the project.

You will also need to appoint a full-time project manager, who will be responsible for moving the selection process through to completion. This leadership position is typically occupied by an executive in the finance or IT department with a high degree of authority in the company – someone who has knowledge of the existing systems and the problems associated with them. He or she must understand the business objectives of the project relative to each department and have a good working relationship with those departments. As well, they should also have a good working knowledge of software.

We recommend that a formal selection team be appointed, covering all relevant functions of the organization. This team does not need to be the same team as is appointed to oversee the implementation, but we recommend it. These team members are not required on a full-time basis but are required to have a deep knowledge of their department's business processes. Including a representative from each department of the organization early on in the selection process will encourage buy-in for the system and ultimately increase the potential success of the project.

A typical team should include the following roles:

- Project Sponsor
- Selection Project Manager (Finance or IT)
- Senior executive from Finance
- Senior executive from Human Resources
- Senior executive from Budgeting and Planning
- Procurement Manager
- IT Manager
- Senior executive from each operational department

Follow a Structured Selection Process

In order to make comprehensive and timely decisions, we recommend you follow a structured selection process. Every selection process is different, but having a guide to follow will help you to stick to a schedule and select the ERP system in a timely manner. This way, your organization can begin to realize the benefits of

an ERP system as soon as possible, while helping you assign roles and responsibilities to the members of your selection team. Choosing an ERP system may be the most critical decision your organization will ever make, so it is important to know why you selected that system and how you came to that decision.



Step 3: Assess Business Requirements and Resource Constraints

“What do we need the system to achieve?”

Replacing your ERP system is no simple task. The scope and impact of an organization’s core ERP system is likely to be massive, and the benefits will continue to emerge for years down the road. In order to choose the ERP system that is the best fit for your organization, you must first gain a comprehensive understanding of your current business processes, especially those that will be affected by the ERP solution. The selection team should conduct a thorough examination of the business processes and develop a list of specific requirements needed in the ERP system – now and in the future. Each department representative on the selection team may have a different opinion on the requirements needed of the system and will likely be biased toward the importance of certain features. The views of the relevant departments are essential to determine the business requirements; however, it is important that “needs” are detached from “wants”. Too often, implementation overrun occurs as a result of overrating “nice to have” features, either at the expense of future flexibility or the implementation plan. Ensure you avoid the common mistake of trying to replicate the system you currently have, and instead focus on enabling a system that will have the ability to facilitate future requirements. Ultimately, the selection team must collate the requirements from the various departments and come to a consensus on a list of necessities and a separate list of desires.

“But what about the future requirements we don’t yet know about?”

Planning for change is an evolutionary process. If you know that your circumstances are going to change, does it make sense to invest significant time and resources into an implementation that is ideal for right now but won’t accommodate future needs? If your business is continually evolving, or you would like it to, you should consider the degree of adaptability you need from a system. A rigid ERP system can require businesses to finalize processes that will soon become outdated, which may force the organization to hire costly external consultants whenever a post-implementation adjustment is needed. So, when selecting an ERP system, you should be aware of not only the functionality of the system but also its adaptability and responsiveness of the system. Given that your business is constantly growing, you should pursue an ERP system that has the ability to grow with the company and embrace future unknown business requirements.

“How many users must the system support?”

Often, the cost to license an ERP system and the implementation process will be partly reliant on the number of users each particular module will support. Normally, ERP systems are priced based on either named users or concurrent users (users signed on at one time), but some vendors could have their own unique method of pricing. Nevertheless, it will be helpful during the selection process to create a table displaying the general system requirements and both the total number of users and the number of concurrent users that you will need in each area.

Example:

Requirements:	Named users	Concurrent users
Financial Management: General Ledger, AP	20	18
Reporting & Analytics	50	10
Project Accounting	125	25
Human Resources and Payroll	150	50
Purchasing	16	4

“Do we have enough resources?”

Following the prior analysis, you should assess whether there are any resources or time constraints that may be an issue for your organization. If there are limitations, you may consider the option of hiring external consultants to assist with the implementation process or whether you require additional support from the vendor. Given that the success of an ERP system is largely dependent on the users of the solution, it is important that employees assigned to the implementation are able to commit adequate time to the project and that they have ample support with their regular duties.

For a successful implementation, you will certainly need the involvement of a specialist consulting team from the vendor – experts familiar with the solution and experience implementing the system effectively. It is also vital that your own specialist staff commit sufficient time to the project since they know your business best and can ensure that the application delivers the necessary and desired requirements.

The cost of implementing a new ERP solution could be dramatically affected by any constraints you have on the time and resources you can commit to the project. It is therefore important to assess these constraints now. The time commitment needed for the implementation will surely fluctuate throughout the project and will depend greatly on the size of your organization. Still, creating a table that outlines the estimated resources required for implementation, with corresponding time obligations, will help you expose the areas that lack sufficient resources. If the time you have for implementation is very short and/or you have a low level of resourcing that you can commit to the project, you might require additional support from the vendor.

Example:

- Current system maintenance contracts up for review
- Annual shutdown
- Need to go live by the next year-end

Internal resources needed for implementation	Estimated time commitment required *
Project Manager	Full Time
Financial User	Full Time
IT Specialist	Half Time
HR/Payroll Specialist	Half Time (50%)
Project Costing and Billing Specialist	Part Time (25%)
Subject Matter Experts from each relevant area of the organization	Part Time (20%)

*Note: These example time commitments are based on an average medium- to large-sized organization. However, these values could dramatically change based on the implementation plan, the size of the organization, and the level of customer involvement during the implementation.

Step 4: Determine Selection Criteria

“How will we keep score?”

After you have evaluated your organization’s business requirements, you will need to determine what to measure and how to grade the vendors’ ability to accommodate these requirements.

The majority of the measured selection criteria will emerge from the business assessment and business requirements steps when the selection team discovers the requirements that are most important to the organization. Other criteria may be added as well, including the financial strength of the vendor, the vendor’s future product development roadmap, licensing costs, or the extent to which the vendor shares similar corporate values.

Once the selection criteria have been developed, you must then establish an appropriate method for ranking the vendors in relation to these criteria. For example, you may create a scoring sheet or conduct a vote among the selection team based on demos and other materials. However, these techniques are not the most comprehensive methods of selecting a vital piece of software, such as an ERP solution.

There are numerous other decision-making methods out there, but the weighted-factor approach seems to be the most accurate and inclusive. The weighted-factor method involves assigning a weight (low, medium, high, or 1, 2, 3, respectively) to each requirement discovered in the previous step and then ranking the vendors in each of these capacities. This will help you assess which vendors offer the best combination of the features you need vs. the features you want. You then multiply the weight of the criterion by the ranking for each requirement.

Example:

Weight	Criterion	Vendor		
		A	B	C
Low (1)	Specific Need: Does it provide dashboard views of general ledger and financial data?	4	3	3
Low (1)	User-defined fields: Is there the capability of adding and maintaining user-defined fields, or does IT need to be involved?	5	3	5
Medium (2)	Implementation Process: How well does their implementation method fit our needs? (Timing, effort, etc.)	5	4	4
Medium (2)	Training: What level of training is the vendor able to provide?	3	4	4
High (3)	Reference Check: Are you able to contact at least two quality reference customers to validate the solution and its scalability?	5	5	5
High (3)	Post-implementation flexibility: How easy is it to adapt the system to future requirements?	3	5	1
Total		49	52	42

Rating:

- 1 – Poor;
- 2 – Fair;
- 3 – Average;
- 4 – Great;
- 5 – Excellent.

In this example, Vendor B has the highest score overall, even though Vendor A has been ranked as “Excellent” on more criteria. The reason is that Vendor B scored better on criteria of higher importance.

Whichever method you decide to use, it is important to determine the decision criteria early in the selection process and that it is agreed by the entire selection team. It will also be beneficial to have the decision criteria in place before searching for potential vendors so that you can focus on satisfying the highest priority needs first. Regardless of your decision-making approach, you must still rank all of the vendors using the same method to ensure an accurate and fair comparison.

Step 5: Find Compatible Vendors

“Who will we get it from?”

Before hitting the “Search” button, you should think about your selection criteria and how you will assess which vendors are most appropriate for your organization and what size, resources, geographic coverage, and breadth of product range you expect them to have. You will need to ensure they are financially stable since implementing a business application is never a one-off purchase. Similarly, you should be looking for a vendor with whom you want to build a long-term relationship since you may require ongoing support. To determine who you would like to maintain a relationship with, you should consider how well the vendors’ goals and standards align with your own. Do they share the same core values and objectives, and how well can they support your organization’s core mission?

Search for “fit” above all else

All ERP systems are distinct, and so are the organizations they serve. For this reason, you should be focused on finding a solution suitable to your organization’s unique needs rather than simply following what other businesses are doing. For example, large retail giants may want traditional, rigid ERP software, whereas change-centric organizations require more agility to be able to respond to change quickly without costly rework of the system. Depending on the business, some requirements may not be accommodated by the perennial

ERP giants. A prospective ERP vendor should also have a proven methodology in order to smoothly transition the business from the old system to the new one. Yet

a successful transition requires more than just an effective implementation methodology – it must also involve the right people and the right training. People are the largest contributor to the success of any software solution, so you should pursue a vendor that has a thorough user training

approach, which will provide a deep understanding of the system features and configuration. The vendor must be dedicated to training, coaching, and mentoring your team throughout the implementation process to ensure that your team has the knowledge and ability to maintain the system going forward with as much independence as possible. In terms of research, the Web offers the easiest way to research information on potential vendors. Every major supplier of ERP software has a website with varying degrees of detail. You will generally not find specific pricing details on these websites as the ERP software market is extremely competitive, and licenses for the right to use software can be based on a number of different models. Until you have jointly explored the proposed solution and your specific project requirements in more detail, it will be impossible to get an exact figure for the entire solution.

Step 6: Communicate With Potential Vendors

“How do we begin the connection?”

Any software vendors that you approach should have questions for you as they should ensure that they fully understand your unique requirements, that they can satisfy those requirements, and that you are serious about embarking on a project. Since every organization is distinct, it is beneficial to ask (and answer) as many questions as possible so that both parties gain a thorough understanding of the project and its differentiators. You certainly do not want your organization to be generically grouped into a vertical when you have unique requirements that require attention. For this reason, there are a number of important questions that you should ask any potential vendor, and in return, you should also be prepared to answer several anticipated questions. Here are some examples.

Questions you should ask:

- What application areas do you cover?
- How long has your organization been in business?
- How many clients do you have?
- How many clients are running your current application/version?
- What cloud hosting options do you offer?
- Which clients do you have that share similar needs to my organization?
- How long has your solution been in development or used by customers?
- How can your solution effectively support an organization of our size – now and in the future?
- Do you design, write, sell, implement, and support all of your own solutions?
- What kind of support do you offer?
- What is required to make adjustments to the system after implementation?
- Do you offer mobile applications?
- Do you subcontract to 3rd parties for implementation services?
- Does the solution incorporate “workflow” or other background automation to drive processes and improve accuracy/efficiency?
- Do you have an active user group?
- How much influence do customers have over your future product direction/developments?
- How long does it typically take to implement the solution for a customer similar to us?
- Do you have a proven, structured implementation methodology?
- What technology platforms (operating systems, databases) do your applications run on?
- Is your system able to adapt to changes in regulatory requirements and growth?
- Can you describe your technology stack?
- Can the system scale as we grow?
- Can we make regular changes to the system or our processes without major disruption or excessive cost?
- Does the cloud ERP solution focus on my industry with efficient and services-minded business processes?
- Is it multitenant SaaS, modular, and configurable?
- Does the cloud ERP have real-time data, even as it manages massive data sets, for the entire organization?
- Is it people-centric with actionable outcome-based workflows?

Questions you should be prepared to answer:

- What are your annual revenues/operational budget?
- What is the nature and industry of your business?
- How many staff and sites do you have?
- Do you have centralized administration units?
- Are you considering a move to shared services or business process outsourcing?
- What is your current IT infrastructure?
- What is your preferred hosting option?
- What is driving the need for a new ERP solution?
- How many users of the system will you have for each application area?
- What volumes (documents, transactions) do you process each week/month?
- What other main systems need to integrate with the application?
- Do you have a project team in place?
- What is the scope of the project?
- Who is leading your evaluation project?
- Do you have a budget allocated to the project?
- What is your decision-making process, and who is involved?
- Where are you in the process of the evaluation?
- When are you looking to make a decision?
- When are you looking to go live?
- Which other vendors are you considering?



Step 7: Create the Request for Information (RFI)

“How do we narrow down the competition?”

Traditionally, companies evaluating ERP solutions have begun by compiling lengthy Requests for Proposal (RFP) with hundreds of detailed questions, covering a long list of requirements, some important others not. This was onerous – both for the suppliers and for the selection team, who had to sort through numerous detailed response documents before they reached a shortlist. Nowadays, a core ERP system from an established vendor can be assumed to provide the basic functionality. This means that a shortened Request for Information (RFI) approach can be adopted.

With this approach, the buyer first does some basic research to understand what is available on the market using an RFI, reviews requirements in light of what is possible, shortlists two to three vendors, and then focuses purely on the areas that are critical to the business and likely to be a challenge to a supplier – for example, complex multi-currency requirements, multi-company requirements, or complex non-standard reporting. Get to know the vendors and understand their offerings in detail.

There are some additional disadvantages to the traditional RFP approach, such as:

- An increase in the time and cost of the selection process;
- Costly fees associated with an external consultant handling the RFP creation and distribution;
- Time-consuming revision of documents containing lists and lists of generic functionality that blend into one another rather than the organization’s actual needs;
- The approach is impersonal, and it is difficult for the vendor to establish a relationship with the customer.
- For these reasons, we recommend the RFI approach described above. This will reduce the amount of time and resources spent on the selection process, allow your organization to focus on your specific needs and get to know the potential vendors, and ensure you get the solution most suitable to your current and future requirements.

Step 8: Shortlist and Demo Systems

“Who are the finalists?”

The information collected through communicating with the vendors and the selection criteria can be used to narrow down the suitable vendors to a shortlist of about three finalists, at which point meetings, demonstrations, and workshops may be set up.

This allows the team to experience the solution to an extent and to get a good idea of the right solution and configuration for them. Only at this point is the Request for Information (RFI) used to ensure that the preferred supplier understands and can satisfy the detailed functional specifications for the project. The RFI is a documentation process that serves to formally demonstrate each ERP solution’s specific functionality to the prospective buyer. It may also be used again later in the implementation process, during the business requirements definition and solution design phases.

The detailed functionality of the ERP system communicated by the RFI is certainly important, yet it is not the most significant consideration when selecting the winning vendor. The compatibility and alignment of corporate values between the customer and the vendor organizations are also particularly important. For this reason, the selection team should use the RFI to become familiar with the vendors and to determine the system that is the right fit for your organization. For example, you should consider: Are our corporate cultures compatible? Is the vendor adequately responsive and/or detailed? Do we have access to key executives of the vendor organization? Will the vendor be completely committed to our success, or will we simply be a small fish in a big pond? Raising these questions will help you select the vendor(s) with whom you can imagine building an enduring relationship.

Finally, you should always request and contact customer references from the vendor to confirm that the company is financially stable and trustworthy enough to provide the foundation for your organization’s entire operations.

Step 9: Select Your ERP System

“Who’s the winner?”

After holding meetings and demonstrations of the software and reviewing the returned RFI responses, the selection team should then rank the remaining vendors again with the selection criteria and determine the supplier that is the best fit for your organization. This step is the most serious in the sense that the verdict agreed upon will have long-term implications for the organization’s operations, and the company will have to live with the system, and the vendor, for a long time. This step marks the beginning of a partnership that will continue to grow through upgrades and developments for years to come.

Step 10: Formalize Your Project Plan

“So, you’re all excited about your new ERP system – now what?”

The selection process is now complete, but there are still some tasks required to wrap up the decision. You are now ready to formally initiate the client-vendor relationship and begin the implementation project.

The selected vendor will likely plan a meeting to negotiate the pricing and finalize the contract. This will include a services contract (which will involve the development of a project charter, implementation schedule, budget, implementation team, risk analysis, and communication plan), as well as licensing and maintenance agreements. These deliverables will act as a management guide to support the success of the upcoming implementation. At this point, the vendor and the client should also discuss and assign appropriate roles and responsibilities so that resource constraints can be evaluated and everyone understands which areas of the implementation they are accountable for. Good project planning is essential to a successful implementation – it not only provides a guide for the implementation, but it also proves to be an important risk management tool.

Want to learn more?

If you would like more in-depth guidance through the ERP selection process, we would be happy to help you on your mission.

You may visit us at our website, www.unit4.com, or contact one of our offices for more information.

For more information go to:

unit4.com

Copyright © Unit4 N.V.
All rights reserved. The information contained in this document is intended for general information only, as it is summary in nature and subject to change. Any third-party brand names and/or trademarks referenced are either registered or unregistered trademarks of their respective owners. WP200723INT

UNIT4
In business for people

UNIT4
In business for people