Guide To Selecting
The Right ERP System

The comprehensive guide to selecting the right ERP for your business

INSIDE THIS GUIDE

Financial Considerations

Business Needs Evaluation

The RFP Process

CUMULUS
CONSULTING, LLC.

Guide To Selecting
The Right ERP System

If you're at the point where you are considering replacing an ERP system, the likelihood is that your legacy system has been in place for a very long time or something in your business has changed over time. Typically, the business has grown in size and/or complexity and you are now faced with inventory issues, connectivity issues, systems and data access issues or a combination of many issues.

The right ERP solution offers many benefits, including streamlined and integrated business processes, lower cost of operation, improved reporting capabilities, data security and increased productivity. The wrong ERP system can leave gaping holes in functionality, create unwanted work arounds and result in inefficient manual processes and costly custom development.

Regardless of the issues that have led to this point, there are a number of steps that you can follow to ensure that you make the most informed decision to move your organization forward in the right way. One that sets you up for unlimited growth and enables you to take advantage of the latest business systems technologies that are giving leading companies a distinct edge in today's competitive environment.

Before we dive into the nitty gritty of ERP selection, it is important to note that the critical element of implementing a new ERP is first selecting the implementation partner and methodology. This should be one of the first steps taken in an ERP selection process. Systems do not vary much from one to another within given verticals, but the implementation partner would be best positioned to provide insight regarding the best products/systems to evaluate. The implementation partners knowledge and immediate experience of your industry will be the critical factor in ensuring success from selection, through process mapping and ultimately the implementation itself.
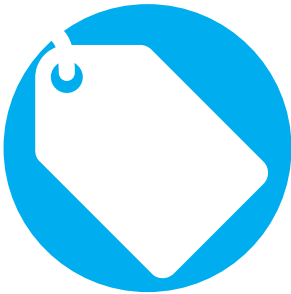
CONTENTS

Financial Consideration

The first, most logical step in beginning the journey of ERP selection is to first understand the potential costs associated with the ERP system, and the implementation itself.

Licensing

Licensing models and costs vary greatly from one ERP vendor to another. In most cases there's an up front license fee, a 'per user' fee and recurring annual maintenance fees just for the software. Some software licenses are based on number of users, while others may be based on the company's revenue. This is something you'll want to learn early on about the ERP vendors you're evaluating, this can have a significant impact on the total cost up front as well as the total cost overall. Evaluating the licensing options available early in the process with the ERP vendors is crucial so that you understand what you could potentially be signing up for. You may absolutely love one solution over another, but the licensing fees may make it cost prohibitive.

Hardware

Implementing a new ERP system often times requires installation of new hardware, meaning servers, network gear and potentially new PCs and wireless scanners as well as other bar coding equipment.

Most on premise software will require a server as well as a database license, SQL, Oracle or other in order to run the back end of the ERP system. This often times is overlooked in many ERP selection processes and involves significant costs.

Don't forget that with the addition of hardware means the addition of maintenance on that hardware, if you have an internal IT staff you may be covered, if not you could be looking to outsource your IT to a managed services firm. Some managed services firms will also host your ERP system for you so that you do not need to invest in the hardware and they maintain all of the equipment for you.

Installation

Installation of a new ERP system can range from something as simple as logging into a web URL with a user id and password, to quite elaborate installations often times requiring a significant level of IT support and knowledge. Costs can easily get carried away just during this process, it's typically underestimated.
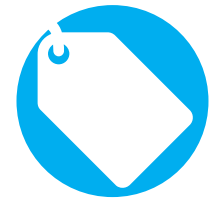
Implementation

ERP Implementation is the lengthy, tedious process of working with either the software vendor or a 3rd party firm to guide you through the configuration and use of the new ERP. Most ERP vendors will offer a services quote along with the software package. You'll generally find that the price from a software vendor will be at a premium for this service, but you do not always get what you pay for.

Implementation effort can vary with each ERP software and with each company looking at new software as well. The availability and strength of the resources you have internally to form an implementation team is crucial. The more business knowledge your internal team possesses the smoother the implementation process will be.

In the consulting world, when we engage with teams that lack general business knowledge or don't completely understand the business they're in, we find ourselves providing more of a consultation service. Typically a good implementation may require 25% or more of a person's time for anywhere from 6-12 months depending on the size of the implementation. There should be a project champion assigned to the implementation who has a good overall knowledge of the business operation and products.

Not all implementers are created equal, Cumulus specialize in manufacturing companies while some of our competitors specialize in finance. It's very important that you select the appropriate resources based on their experience, not just cost. Typically an implementation in a manufacturing environment is more challenging because there are more moving parts, which requires more knowledge on the part of the consultants and a more robust ERP system. Manufacturing companies should never assume that assigning an IT person to the project is the right answer, you need manufacturing knowledge driving the process otherwise the implementation will not be successful in most cases.

Training

One of the single most important aspects of any new implementation is the training. Training is generally part of the overall implementation process, however, typically there will be things not covered as part of a standard implementation.

We have found that typically add-ons such as system administrator training, super user training, work instructions and other offerings are of a very high value add to the client. The more training you can obtain regarding the back end functionality of the software the better off you'll be long term. You really want to manage and take ownership of the new system as quickly as possible and avoid paying high hourly rates to consultants to make changes for you. Consider any options that are available to you either from the ERP vendor or the consulting firm you decide to work with, be sure to ask about this and get it included in the project plan up front.

Business Process Mapping & Consulting

Process mapping and consulting are normally add-on services to any implementation. A standard approach is for the implementer to do a site visit and prepare a discovery that will be used internally to configure the software. This is the solution engineering process, which is generally started during the sales cycle with the ERP vendors and carries on through the beginning of the implementation.

What we find to be quite typical is that most companies don't know, what they don't know. Often times management feels that they have robust processes and procedures in place, but what we find out during the implementation is that the organization has lacked the discipline to enforce what may be good processes so they've been broken down. The business process mapping is very important, without this you could be implementing a system that is supporting broken, disjointed processes. Don't expect that this happens as a typical part of the implementation process either. Some vendors will include this in their estimate, while others are simply quoting for an "out of the box" type solution. You don't want to be stuck with something that's going to yield inefficient results.

One of the keys to success in our implementations is working with the client to ensure robust, best practices are implemented along with the new ERP. Most good ERP systems will provide for some systematic mechanisms to ensure that certain business processes are followed by system users. These are good systems to look at, growing organizations need discipline in order to scale and remain competitive.

As great as this part of the process can be, expect for it to be costly. There's a lot of effort involved in evaluating your organization, documenting the current state and determining future state – then applying that into the ERP implementation. This can generally add 25-50% more on top of the implementation cost, and at the end of the day it's worth it.
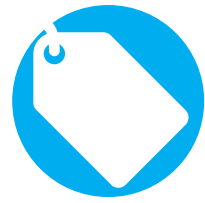
Customization

We generally tell every client that there's no such thing as the perfect system. That's absolutely true. There are systems that do some things very well and other things not so well. Every company is different in terms of how they operate and the tools and controls they need. You need to evaluate what is truly core to your business and let that drive the selection decision.

Each ERP system can generally be customized either in house by your own programmers, the ERP vendor, or a 3rd party like Cumulus. You want to make sure if you go the 3rd party route, that they are certified by the ERP vendor to do development. This will ensure that you're getting OEM type results, not band aid solutions.

As you take the time to evaluate different ERP vendors, don't be too worried about finding a solution that will meet all of your needs, besides, it's not very likely to happen. If you end up being one of the lucky ones then congratulations. Instead focus on the core, what do you really need the system to do, the other ancillary stuff can be worked in.

Timing

Be realistic in terms of determining an implementation time line. Things cannot happen overnight, and if they could you likely would not be happy with the final product. A typical implementation should take anywhere from 6 – 12 months. Some are longer and some shorter, it all depends on the size of the company, complexity of the system and *the strength of the core team that you can put in place.*

The best thing you can do is lean on your implementation partner for suggestions as to how long this process should take. Don't be afraid to push back a little, most implementers will be happy to throw a little safety cushion in there. Just remember though, if they say 9 months, you'll never be successful in 5, where 8 months is probably safe.

Usually target your go live for a month end, quarter end or year end. You want to start up typically on a Monday morning, which gives you the weekend prior to get your cut over activities completed which involves a huge amount of accounting work and typically some inventory activity.

Regardless of the size and complexity of your organization you will want to have your implementation partner on site for the cut over and go live, just as an insurance policy in case things start going sideways so you can recover quickly. The last thing you want to do is miss shipments or send any messages to your customers that there's a problem.
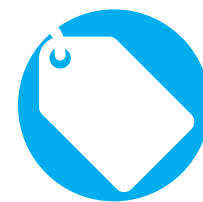
Type of Solution

More modern ERP systems offer different solutions which have many pros and cons associated with them. For example, there are hosted, cloud and on-premise solutions which are quite typical.

On-Premise is very traditional, it requires on site server(s) to run the front and back end of the ERP as well as typically someone on site to manage the hardware and software side. These solutions typically seem like good options up front, in the long run however often times these solutions break down. You'll be responsible for upgrades and replacement of equipment, backups, upgrades, programming changes, etc. Most manufacturing companies without a very strong IT group lack in this area because there are standards and protocols that should be adhered to in order to successfully maintain an ERP system over several years. In order to get the best bang for your buck with an on premise solution you need to consider a fairly sophisticated IT person and system analyst to be on staff. These systems are quite scalable, however, will come at a significant cost to your company down the road with upgrading memory and storage requirements to handle your company's growth.
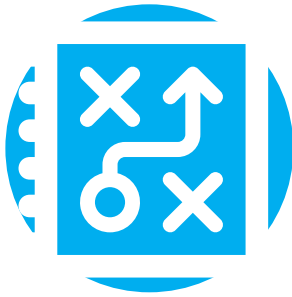
Hosted solutions are a good "in between" meaning it's not quite on premise, but it's not really cloud either. Typically, the software vendor, or a managed IT services firm will host the solution for you at their site. You access the ERP remotely over the internet but you're still running a single instance on a server at some location. Advantages here are that you have access to state of the art technology without really paying for it. You also get the advantage of not needing a full time IT staff to maintain servers, backups, upgrades, etc. With hosted solutions, you don't need a high level of sophistication in the IT department, nor do you need a system analyst. These functions will be provided for you as part of your contract with the hosting vendor or the MIT provider.

Cloud based solutions are a more recent addition to the lineup, over the past 10-15 years this has become more and more compelling. Cloud solutions typically are multi-tenant; which means you share the same hardware and software with hundreds or potentially thousands of other companies. The advantages here are that you are operating on the most advanced, sophisticated state of the art equipment that there is. Your system up time will be in the neighborhood of 99.9%. Any maintenance, upgrades or updates to the equipment or software are managed by the ERP vendor. You'll never go through painful updates that break your customization again. Cloud systems are generally accessible anywhere you go, so you do not need to setup secure VPN connections which are costly in order to access your system from outside the 4 walls of your business. Cloud solutions are very scalable, as your company grows the solution will be able to handle it from a data and functionality standpoint. Cloud solutions are typically subscription based, so you pay a monthly fee for access to the software, making your initial investment significantly less than the other solutions. Some companies are slightly leery of this approach because of what they feel are the unknowns, data security, ability to customize, etc. We have found that data is typically more secure being hosted by a cloud vendor, customization is no different than on premise and these are generally expensed rather than capitalized because of the subscription based nature.

Cumulus primarily implements Cloud solutions, because of the flexibility, low cost and easy startup.

Evaluation of Business Needs

Evaluating the company's business needs is crucial. The first thing you should consider in starting an RFP process for a new ERP system is to assemble a committee. The committee should consist of stakeholders from all departments of the business. Remember this is important because an ERP system reaches out to all areas of the business; this is not just an IT project.

Part of the process should include some detailed investigation into each area of the business to determine what "other" systems are currently being utilized. Often times you'll find that several managers maintain their own offline systems by way of spreadsheets or access databases in order to help them digest the information they need to run their department or perform certain tasks.

Look critically at each component of the business from Accounting, planning, quality, manufacturing, shipping, etc., in order to carefully analyze what tools are currently being used. Are these tools outside of your existing system being used because of inadequacies of the current system or is it due to a lack of training, knowledge or access to the current system. This will require someone with knowledge of the current systems in place, in order to identify what the touch points are.

Once you've identified all of the systems, you should compile a list of them, what they do and who uses them and for what purpose. This will start to define your RFQ requirements for selecting a new ERP system. From this list, start to break it down into business critical applications and other less important or significant systems. This will start to define the potential implementation phases for your new ERP system.

The main objective in implementing a new ERP should always be a focus on replacing current out dated functionality and incongruent processes. Most companies that have legacy systems have a tremendous amount of capability to obtain big gain in these areas by getting a new ERP system, so this is the challenge when you start shopping around. There are lots of bells and whistles out there, so you need to stay focused on what you need to run your core business. It may be determined that some of the ancillary systems currently in place, may remain. These are decisions you should make prior to even engaging with ERP vendors and soliciting for quotes.

Starting the RFP Process

Once you've identified the major challenges you face, you've assumed you're going to spend some money on this project and you understand it's not going to happen overnight; you're then ready to start getting some bids.

You should start by either doing your own research or hiring a selection firm to help guide you and narrow down to 3-4 vendors. There are hundreds of options available that are well suited for different size companies with different needs or objectives. Most selection firms have the pros and cons of each vendor already identified, so this process can be narrowed down from weeks or months to just days. Usually there's a cost associated with this service, but it's minimal in comparison to the time it could take you to do this on your own.

Once you've narrowed down the results, the engagement process should start by initially contacting the ERP vendor and get the ball rolling. Some selection firms will put together a robust RFP for you to send to the respective ERP vendors. The RFP will include all sorts of requirements and wishes that you want the ERP vendor to agree with. Depending on the size of the vendor and how large of an organization you are, this may or may not be a valuable process. A small company sending an RFP to Oracle for example is a waste of time.

Demos

Each ERP vendor you choose to work with should be willing to provide as many demos of the software as necessary to earn your business.

Don't be afraid or feel obligated to anything by sitting through a demo. You should dictate the demo to the vendor, if you get stuck with vendors that just want to run the show then that's a telltale sign that they may not have the specific functionality you need. When a vendor wants to tailor the demo, using some of your sample data and show you specifically things you are wanting to see, then you should feel comfortable that the vendor has adequate solutions. Most of our clients request multiple demos, this process may take 1-6 months to complete depending on your urgency and also your teams availability. You should assume that the demos are going to take anywhere from 2-6 hours each. This all depends on the functionality that you want to see and how many questions you have for the vendor.

CUMULUS
CONSULTING, LLC.

References

You definitely want to speak with references, ideally the vendor and implementation partner will provide you with references to similar size companies that have similar processes. This may not always be feasible and that's ok, you mainly want to get feedback from others using the software.

You'll want to ask the references things that will help you determine if this is an ERP vendor you want to deal with long term. Questions like how the vendor manages 'bug fixes'; or how easy is the vendor to work with when you need something changed. These are important things to know. Keep in mind that most ERP systems offer similar functionality, so keep the questions geared more towards how successful the relationship with the vendor will be rather than the product itself. That being said, we're not suggesting that you don't ask about the product.

Speak with the references about the implementation partner, strategy used and overall project success. You want to make sure that the implementation partner has a good solid track record implementing the software you're looking at. It's often times good to see if the partner supports ERP systems outside of the one you're looking at, which shows that they are un-biased and therefore are more likely to be up front with you in the event that the system doesn't perform well in certain areas. You'll want to know these things so you're not surprised down the road. Just remember, no ERP system is perfect for your business.

Talk to the references about how well the project stayed on the timeline and in budget, these are important things to know. Don't be surprised to hear that the project was delayed or went over budget, these are very common issues in any ERP implementation. This may or may not have anything to do with the implementation partner or ERP, often times the clients just aren't ready or require additional retraining that wasn't part of the plan – usually leading to delays and rising costs. It's good to ask the reference if they had challenges on their side, and what those were. Asking them what they might do different.

Pricing

Once you've been through the demos you should have your selection narrowed down to two but no more than three different ERP vendors. In some cases there may only be one viable option, we find this to be the case more often than not. Clients of ours that can't narrow down to two or three options typically are not sure what exactly they need out of the system. There are such huge functionality gaps between various ERPs that having more than two doesn't make much sense.

You should start pushing the ERP vendor and implementation partners for estimates. In order to get these, you need to establish a fair baseline with all vendors. The baseline must be a specified list of modules and a defined timeline with estimated start dates and go live dates. The list of modules is crucial, that's how the vendors will price the product for you as well as how the implementer will know how much effort will be involved. The timeline gives all parties a good idea of what the expectations are up front. No one likes giving customers quotes if they don't have any idea of when the customer plans to kick things off, at that point it seems like a wasted exercise.

Some vendors may ask you for a bunch of other information, number of users, number of sites, revenue, etc. Be prepared to answer these questions and be open with the vendor and implementer. It doesn't do anyone any good to sugar coat things just to get a lower estimate, the software vendor and implementer always have clauses in their contracts allowing them to charge additional if there are misrepresentations. You're going to feel much better knowing exactly what the bottom line will be rather than a false sense of security.

Because no two systems are alike, it's difficult to do an apples to apples comparison when it comes to price. The other thing to remember is that with different licensing models, one vendor may make a whole lot of sense to you right now, but the other vendor's proposal may be a better option for growth and scaling as your business grows. Several things must be considered when you're evaluating the costs between two systems.

Consider annual maintenance fees, as well as support costs. Most software vendors offer support and some will be included in the maintenance while others charge you based on time and materials (T&M). You will definitely need the support for the first 12-24 months after go live, so don't discount the fact that one option seems less expensive now, it will not be in the end.

If something seems too good to be true, it probably is. It's so cliché but it's really the truth. If a vendor is giving you such an amazing deal then there's got to be a catch. The best way to get a deal is to figure out if the vendor operates monthly, quarterly or annually. Catch them at the end of one of their cycles to negotiate the best deal. Don't wait until the week before, you should start weeks before so then you get the initial proposal, as you near the end of the sales quota period you can really get some deep discounts and extras thrown in at the last minute. As with anything, if you're unsure, the end of the year is always a good time. Keep in mind though that they'll want you to sign the contract before the last day of whatever the period happens to be, so if you drag things out too long you'll shoot yourself in the foot.

Most implementations are going to be priced based on T&M. Consulting firms will rough out the number of hours involved from their end and apply an hourly rate to that which will be your implementation cost. These rates can range from $125-$400 per hour depending on the firm and the product you're implementing. You need to be thoughtful of how much consulting you really need during the implementation process. If it's been any more than five years since you've implemented an ERP you likely need more consulting hours. If it's been twenty years, you will need a lot. Things have changed so much, and there's so much bad data in your old system that it's just going to take more time. Be up front with the implementer regarding this, otherwise you're just going to be unhappy at the end when it costs you more than you expected.

Ask about a not to exceed, or better yet, a fixed price implementation if you can. Most consulting firms do not like this because it puts more of the risk on them. Of course there will be certain conditions and criteria that would justify going over budget and you'll have to pay for that, but regardless this is something that you should ask for. If the firm refuses, you should ask why. If you can't get good straight-forward reasoning then they may not be the right firm for you. In some cases, with very large implementation projects, this approach is unrealistic, but typically this applies to companies with less than 75M in revenue.

You can generally always negotiate payment terms with both the software vendor and the implementation partner. Stretch them out as long as you can. Keep in mind, the more you push on terms and fixed rates, the more the estimate may be because the vendor is always going to try to protect themselves the best they can. You're not going to get rock bottom prices from a reputable software and consulting firm. You DO get what you pay for.

Final Selection

Once you've determined the path you want to take, finalize your contract with the ERP vendor and the implementation partner. Both will typically have lengthy contracts that you'll want to review before signing on the dotted line so be sure to leave yourself enough time to do this. It's also not a bad idea to ask for a copy of the service agreements as part of the pricing/negotiation phase so that you can review the T&C's beforehand.

If you have any questions regarding this, or would like more information on how Cumulus Consulting can help you with the selection process and/or the implementation of your new ERP, please do not hesitate to contact us.

Where To Start?

To help increase the odds of choosing the right ERP software, your organization should engage with an ERP consultant as your independent and unbiased partner BEFORE you start down the path of evaluating the choices. An experienced partner will cut through the inevitable sales hype to help determine which ERP system and deployment model is truly the best fit for your business needs. Since the implementation team is by far the most critical factor in the ultimate success or failure of a new ERP system, it only makes sense to identify your implementation partner as the first order of business and to establish a long-term working relationship to help guide you through every step of the process.

Finding the Best Fit

Cumulus Consulting offers decades of hands-on experience in helping companies solve their ERP challenges. We take the time to get to know your organization, understand your business model and operations, and get a feel for your people to ultimately find the right fit for your organization, taking all things into account with you.

> " Rather than relying on the biased opinion of a specific software developer, it is best to involve a third-party, such as a software consulting company.
>
> – Forbes Magazine

The guide was brought to you by www.cumulus-erp.com

For more exclusive ERP advice and resources follow Cumulus Consulting on social media: