How to Select ERP

...and not regret it

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Chapter 1: Prepare

Note: The perfect companion to this eBook is the ERP Selection Criteria Checklist

Create an ERP Selection Committee

The first step is to create a software selection committee. The members of this committee should be made up of a select group of decision makers in the organization. There are no hard and fast rules here, but there are guidelines:

- The committee needs a leader. Don't make the mistake of equating software to IT. Choosing an ERP package is a business decision, not an IT decision. IT plays a role, but it is a supporting role. The leader should have an intimate knowledge of your business, and should have the power to bring about change.
- The members of the committee need to realize the time commitment that comes with committee membership. If they can't commit the time needed for the project, they should not be on the committee.
- Does anyone on the committee have the authority to sign a contract and write a check? If the answer is no, you need one more member on your committee.

I know the last point is sometimes not possible. If the final decision maker is not going to be part of the committee, that person will not be part of the learning process that the rest of the committee members will go through. So how will that person make the right decision with less knowledge? Will that person have faith in the committee's decision? Don't kid yourself on this one. It's rare the person

who will sign the check acts as a "rubber stamp" to the selection committee. This is a big decision for any company, so it's important it have the final decision maker involved as much as possible.

Define the Goals

The second step is to define 3-5 business goals you want to achieve for each business area. From that list, pick the top 3-5 goals for the overall business. Notice I didn't say, "Goals that I want to achieve with software." Software is not a part of this step. You want to develop a list of what you want the company to *achieve*, not what you want the software to *do*. It may sound like a subtle distinction, but it's not. If your mindset is on what the software will do, you will come up with items like:

- I want to email a PO to my vendor.
- I want a report that tells me who didn't clock in today.

Emailing a PO to a vendor or producing a report aren't goals, they're features. Goals sound like this:

- I want to provide my customers accurate ship dates.
- I want accurate job costing.
- I want a 98% accurate inventory.

Notice how the goals sound far more noble than the features? That's because they are. Features are usually accomplished with a few clicks of a mouse. Goals involve training and procedures, not just software.

Focus Your Vision

OK, you have a nice list of achievements for your company. Now you need to prioritize the items on that list. Pick the top 3-5 items that your company needs to achieve. Notice again, I didn't say, "…with software." This isn't about software yet. It's about developing a focused vision for your company. Do the executives in

your company agree with your vision? If they do agree – great. If not, either convince them of your wisdom so they do agree, or change the list. In the end, the team has to agree on the list. Because that list contains your goals, and you will judge all software packages on how well they will help you achieve your goals.

As for the items on your list that didn't make the final cut, they still have value. We'll talk about these items later.

Enjoy the Moment

Congratulations! By creating a vision, you have achieved something a vast majority of search teams have not; you have goals. As silly as that sounds, it's true. Usually companies (or the consultants they hire) create long lists of items the software must do. The items are then grouped by function (Order Entry, Shipping, etc.) and then graded by level of importance (must have, nice to have, etc.). It all looks important and official, and discussing all the items with potential software vendors makes you feel like you are doing your software homework, but it doesn't replace the fundamental need for goals. I would argue that it actually creates noise and confusion, not clarity.

But you won't have that problem, because you created goals. Nice work. Sit back and enjoy the moment.

A Little More Prep Work

Before you start looking for a vendor, there are a few more decisions you need to make:

- What type of database platform do you want to run on? Are you looking to run your software on a SQL Server database? An IBM database? There is no sense in looking at software that doesn't run on the platform you choose.
- How do you want to deploy this? On premise? Cloud? Hosted?

- 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). You don't need an exact number at this stage, but you should have an idea of how many named and concurrent users you will need.
- Define your business. Are you make-to-order? Make-to-stock? Mixed mode? Process? There is no sense in looking at a package that doesn't fit your business model.
- What is your budget? Don't kid yourself into thinking price doesn't matter; you are looking for a solution. There are plenty of solutions out there at many different price points. Come up with a ballpark budget that includes software and implementation services. You don't want to waste your time investigating software you can't afford.

Chapter 2: Find Vendors

Start the Vendor Search

Armed with your goals and some basic stats on your business, you can now begin your search for an ERP vendor. I'm sure this is the part where you expect I will reveal to you "The List". You know, the list of the software companies that will meet your needs, and save you all the trouble of research and creating your own list of possible solutions. Sorry, that list does not exist. Oh, you can get on the internet and find all sorts of websites that will provide lists for you and help you find the right software for your company. Note all the banner ads on these websites. Those ads aren't free, software companies pay for them. You can decide for yourself how strong the correlation is between the advertising dollars software companies pay and how often they are recommended. For me, I can't decide between really strong and really, really strong.

Does this mean you should avoid these sites? No, they are a source of information on what ERP products are out there. Many of them have very informative white papers you may find interesting. Just realize there are a lot of advertising dollars floating around those sites.

So the reality is this: You need to do your own research. Don't despair; it's not as bad as it sounds. Remember, you have a list of goals, you know what platform you want to run on, you have an approximate number of users defined, and you know your business model. Start searching the internet with your favorite search engine for ERP products buy using keywords such as "manufacturing ERP" and "manufacturing software". Believe me, you will get results back on these

searches. Now, start looking at the software developer's websites. By design, these sites cast a pretty wide net. That's OK. Pick 8-10 that you feel may have an ERP package that addresses your needs.

Time to Make Contact

It's time to contact your list of possible ERP vendors. There are many ways to contact them, but I recommend email for this step. Email allows you to tell each vendor the same thing, it also allows the vendor to pass all the information you provide to the appropriate person in their organization. In your email, let them know 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).
- The platform the software will run on.
- Your top 3-5 goals you need the software to address.

Ask if they have a possible solution for you. If they feel they don't have a solution for you, ask if they can recommend a solution. If they recommend a solution that is not on your list, you should add that vendor to your list and contact that vendor.

For any vendor who feels they have a solution for you, they need to provide 10 references. Let them know you will not be contacting the references; in fact, you don't want any contact information. What you do want is the company name, number of employees, yearly revenue and business model. So why do you want the references? It's not to judge the performance of the software and the level of customer satisfaction (that comes later); it's to see if the list they provide you feels like a group you belong in. Here's an example: Let's say you are a 100 employee manufacturer with revenue of $25 million a year. Are the references a vendor provides you also manufacturers? If they are not, that's a red flag. (Note: Their product doesn't have to be similar to yours. If you make stuff and the

reference makes stuff, it's a match for that category.) How 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 holds true 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. Every ERP vendor has a sweet spot that their product is geared for. You want to make sure you are in their sweet spot.

If the vendor pushes back on providing references to you, or pushes back on the number of references you want, that's a red flag. First, the vendor is not listening to you. Second, if a vendor has hundreds or thousands of happy customers, why would providing 10 references be a problem? Maybe they aren't as happy as you are lead to believe?

In addition to references, 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 if, at a high level, you can afford what they are selling.

You will find 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. It could be a sign of a sincere salesperson who is taking your inquiry seriously. Take the call. You'll be able to judge what type of person is on the other side.

Thin the Herd

I would suggest that you will only want 3-5 possible vendors before you start the next step. The next step involves spending time with each vendor, and you only have so many hours in the day. The goal in each step in this process is to be thorough. If you invite too many vendors to this next step, you could become overwhelmed and then start taking shortcuts. You don't want that to happen, so pick the 3-5 vendors you feel comfortable with that have provided solutions to similar companies as yours.

Observe, Don't Direct

Here's the mistake many companies make at this step in the process: They try to control the process. They do this by telling the vendors what they are going 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. They do this, because this process appeals to their sense of order and fairness. After all, you want to compare "apples-to-apples" don't you?

The problem with this logic is you are setting up a scenario where everyone ends up looking the same! If they all look the same, how are you going to differentiate them? How are you going to reduce the list down to two possible vendors? I'll tell you how – screen colors, whiz-bang features, and cool stuff. In the end, salesmanship becomes the driving force behind the decision. Wasn't the goal of controlling the process to avoid this?

If you really want to be in control, don't try to control the process. Observe, don't direct. Let the vendors who made the 3-5 vendor list know they made the cut. Then ask them how they would like to proceed.

Are you feeling uncomfortable yet? Well, hang with me. Let's jump to the finish. You are at the end of the process, and you just chose an ERP package. What are you really buying? Of course, you are buying ERP software. You are also entering into an implementation relationship with your vendor. They will be working with you to help configure your software and develop procedures to meet your business needs. So during your software evaluation process, shouldn't you really be evaluating not only the software, but also how your vendor proposes to use the software to address your business needs?

This is exactly what you want to do. So, ask your vendor how they would like to proceed, but remind them they have a list of your top 3-5 business goals. Tell them you want to see how they would address those goals with their software. Tell them the first demo needs to be limited to addressing these goals. If you don't like how they would address your top 3-5 goals, it really doesn't matter what other features the software has. How the vendors conduct themselves from

this point on will give you keen insight into who you may end up partnering with. Remember: Observe, don't direct. Does the vendor want to visit your company to get a better insight into your issues, or do they just want to demo? Does your vendor ask for data to put into the presentation? When they do demo, are they addressing your 3-5 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?

Thanks for hanging with me on this. Hopefully, it makes sense now. Remember the biggest mistake you can make here is to offer guidance (e.g. offering demo data to all the vendors). Set the goal for the vendors and then observe and judge.

Chapter 3: Evaluate

Demo – Round One

Take good notes at the demo. This is critical, because after the passage of time, the different solutions you saw will start to blend together. It's also important to have the entire selection team in the ENTIRE demo. It's a good idea to discuss each demo as a group within 24 hours of the demo. Get everyone's thoughts out, and keep a running demo-to-date ranking. In other words, which solution is in first place, second place, and so forth. As a reminder, the criteria for the ranking are ONLY how well the vendor handled your top 3-5 business goals. Cool, whiz-bang stuff for the sake of cool, whiz-bang stuff does not have a place here. (Read the previous two sentences over and over again until it is engrained into the fiber of your being.)

Don't be surprised if you or your committee members start thinking that a few of the solutions you saw could work; this is normal. Usually, this is heard when the focus is just on the software. Fold into the judgment the attentiveness, preparation and professionalism of the vendor. You need to look at the vendor as closely as you look at the vendor's product. This should start separating the products.

Thin the Herd – Again

After your 3-5 vendors have completed their demos, it's time to make another cut. The question is, how many vendors should be remaining after the cut? Many times, companies like to bring it down to three vendors. Although this is

conventional wisdom, it doesn't make it right. I believe the correct number has a lot to do with how the first round of demos went. Was there a vendor that the entire team thought was head and shoulders above everyone else, based on the 3-5 business goals? If so, there is nothing wrong with moving forward with one vendor. If during that process you don't like what you see, 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. I believe you should try to limit your selection to no more than two vendors.

There are many reasons for this; time commitment is one. The next steps will involve a deeper look into the software and vendor, reference calls and site visits. You want to be thorough; you don't want to take shortcuts. Limiting the selection to two finalists reduces the time invested by your company in making the final decision. It also reduces the amount of noise that will start creeping into the selection process. Lastly, it assures that the product you select is supported by the majority of your selection committee. Let's look at the math on that. If you had nine members on your selection team and four liked Product A, three liked Product B, and two liked Product C; Product A wins. The result, however, means four members got what they wanted, but five members didn't get what they wanted. So the majority of the committee didn't want the software that was chosen. That can lead to a bad dynamic during implementation.

Time to Look Closer

Your goal at this stage of the process is to get a closer look at the vendor and the software solution your vendor is proposing, so you will be requesting a complete demo of the software. The same rules for the first demo still apply: Observe, don't direct. Remember the list of goals you created at the beginning of this process? To date, you have only provided the top 3-5 goals to the vendors. Provide the remaining goals to your vendor. Let the vendor know you want to see how their product would handle these goals. Also, let them know 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 thing: 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 (I don't suggest a site visit yet). There is no need to wait until the demo is over to check references. In fact, you will find it is a great 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. These are items that can be further explored during the demo.

So what type of information do you want from the references? Here are some guidelines:

- What type of business are they?
- Explain the top 3-5 goals you are looking to achieve. Did the reference have similar goals? Were they achieved? If not, was the software at fault, or was it an internal problem?
- What are the greatest benefits the reference saw after they were implemented?
- Were there any surprises?
- How was the implementation support? Was the cost and time frame in line with what was discussed and quoted? If it wasn't, did the scope of the project change, or did they feel the vendor underestimated the work required?
- If they had to do it all over again, would they choose the same ERP package?

You should hear some negatives during your conversation with the reference. This is normal. (Actually, you should be suspicious if you don't hear any negatives. If

this happens, I would completely disregard the reference. Chances are they are a paid reference.) Some of the negatives you may discard, because it doesn'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? By all means, discuss it with the vendor. Your goal is to learn as much as you can about your vendor and the solution they are proposing to you. There's usually two sides to every story, give the vendor a chance to tell their side of the story. In the end, you'll decide where the truth lies.

It's Demo Time

No new advice here, but the guidelines are worth repeating:

- The vendor can only demo the version and the modules they quoted.
- Take good notes. Don't confuse one software with another when discussing the pros and cons of each solution.
- The entire team needs to see the entire demo.
- The committee should discuss the demo within 24 hours of the conclusion of the demo.
- Stay focused. You want to 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, focus on your goals.
- If you have two final vendors, the demos should be no more than a few days apart. It allows you to do a better comparison between the products. Also, back-to-back demos are not a good idea. There will be a fair amount of mental exhaustion by day two.

Let's Talk Implementation

The best software you find is useless if it is not implemented properly. It's important for you to understand the implementation process of the vendor. I highly recommend a separate meeting with your vendor to discuss

implementation. If you try to tack this discussion on at the end of the demo, the discussion will be rushed because everyone in the room is worn out from the demo. Another benefit by having a separate meeting is it gives you a chance to discuss follow-up questions that are developed in your post-demo recap meetings. These meetings should take place quickly after the demos are complete.

As in the demos, your rule is to observe, don't guide. Is the estimate of services provided created through a collaborative process; or does your vendor inform you of what services you need? If there is a lack of a collaborative process, that is a red flag. There is no canned approach to implementation, because the variables are the levels of experience in integrated systems your implementation committee has. If many members of your committee have past experience implementing an integrated system, you will probably need less guidance than normal. If your committee's experience is running a company off of spreadsheets, you will probably need more guidance than normal.

Chapter 4: Decide

It's Decision Time

What do you mean decision time? Don't we have to do site visits and negotiate the best price out of the vendors first? Nope, 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 as to which solution you feel would work best in your company. In 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 phone references, and you have discussed any disturbing comments you heard with your vendors.

What other information do you need? You don't need any other information. You have come this far, and it's time to make a decision. But don't worry; you are not ready to sign a contract yet.

The Final Steps

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

As I mentioned, a site visit is not required. You really do have all the information you need to make a good decision. However, it is understandable to want to see the software in action before you sign a contract. If this will give you or your committee a good comfort level, by all means do it. Please keep in mind that the company you will visit has their own business to run. The site visit should be just that – a visit. Don't plan on spending the whole day there so you can explore and discuss every tiny detail of their operation. Your goal is not to implement your system on the visit. Your goal is to get a comfort factor that the software does work by observing a company that is actually using it.

Now let's talk about finalizing the price. The reason I advised against getting your vendors to "sharpen their pencils" before deciding on which solution would fit 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). Don't cloud 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. There is something else to consider. If a vendor feels their solution is not the best fit, they lower their price. They have nothing to lose, everything to gain. If you allow price into 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 could have saved yourself a lot of time by skipping the reference calls, final demos, post demo meetings and implementation meetings, and simply informing the finalists that the best price wins.

The fear is you are giving up your negotiating power if you inform one vendor you would like to move forward with them. I don't think you are. I'm not going to turn this into a negotiating article (there are certainly enough 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.
- It is yours to lose.

I'd be surprised if you and your vendor couldn't come to a mutually beneficial agreement. If your chosen vendor becomes very difficult to work with, or starts introducing costs you were unaware of, you always have the option of not signing a deal with them and moving on. Again, this is highly unlikely because of the time, effort and investment the vendor put into your process to get to this point.

Celebrate

Congratulations! I hope by following this advice, you feel comfortable with your decision and purchase. Take a moment to bask in the glory of your accomplishment. Besides, you'll need the energy for the next step – implementation! To help with that topic, I've written an eBook on that. Check it out [here](#).