BEST PRACTICES
IN ERP VENDOR SELECTION

Paper Summary

Relying on an outdated ERP system makes it difficult to manage change, risk, and maintain competitiveness in an uncertain and volatile market.

This paper proposes best practices for the small to medium sized manufacturer to consider as they embark upon an ERP selection project.

Companies are wise to identify ERP vendors that have a proven track record in their sector; that meet total cost of ownership requirements; and offer a delivery model that suits the company's technical infrastructure.

Other best practices include conducting a thorough review of the ERP vendor and soliciting a range of relevant customer references.

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Why Be Left Behind?

According to researchers at Forrester, approximately half of companies using ERP systems are currently on releases that are two versions behind the current release, which may be four years old or more.

We've seen other research that shows more then half of the 40,000 mid market manufacturing companies operate with outdated ERP systems.

Today's pace of change places challenges on the manufacturing business process. The volatile manufacturing sector, global competition, customer requirements and expectations all work to tax those outdated business systems still so prevalent in the manufacturing industry.

Relying on an ERP system that is outdated, or only upgraded every four or five years at best, makes it difficult to manage change, manage risk, and maintain competitiveness in an uncertain and volatile market.

That's why these companies eventually find their way to an ERP selection project.

The Big Question

One of the first steps an ERP selection team usually takes is to pose the question "What ERP vendors should we consider?"

Companies will turn to a variety of sources for information. Management usually turns to industry analysts, associations and references from friends or colleagues in the industry. Other staff might rely on their past experiences with a particular ERP system, perhaps one that they helped implement at another organization. The ERP team also benefits from the insight and expertise of consultants who have successfully managed numerous ERP selection projects.

"AN EFFECTIVE ERP SELECTION PROJECT IS A KEY COMPONENT TO A SUCCESSFUL ERP IMPLEMENTATION."

All the data points to the following: an effective ERP selection project is a key component to a successful ERP implementation. Implementation projects that fail to attain expectations can be traced back to poorly executed ERP Selection projects.

A Strategic Approach

Given the strategic importance of a company's selection of an ERP system, our team strongly suggest that companies keep the focus on making a good fit to their business process needs, and to team with a vendor that will be a good partner for the future.

To that end, based on our professional experience in ERP selection and manufacturing process optimization, summarized here are five best practices for an effective ERP selection process

Five Best Practices in ERP Selection

BEST PRACTICE 1: SELECT BY INDUSTRY SEGMENT

Manufacturers should team with an ERP vendor that has proven success in the company's specific industry. For example, if a company makes automotive parts, seek out only the ERP vendors that address that industry, and learn about their success stories in that industry. Make sure the vendor addresses critical requirements including regulatory mandates, customer requirements, and other key considerations. The vendor needs to demonstrate a presence in the industry with recent references and a product direction statement that explains how they plan to be the leader in that industry. It makes no business sense to force-fit an ERP solution to fit a specific industry. Instead, take the time to assess what ERP systems have the features and functions that address those industry challenges faced by the manufacturer.

Shortlist the ERP software systems that most easily accommodate a company's distinctive processes. Look for a flexible solution that fits with existing systems. Talk to suppliers, customers and ERP professionals that specialize in a specific industry. Get opinions and feedback on ERP software and how it works with businesses of similar size and requirements.

> "SEE HOW THE ERP SOFTWARE ADDS VALUE TO BUSINESSES OF SIMILAR SIZE AND REQUIREMENTS."

BEST PRACTICE 2: ASSESS TOTAL COST OF OWNERSHIP

At the outset of an ERP project, establish the budget for the project in terms of initial implementation and total cost of ownership. Talk with the vendors about the budget and see if there is a fit between the two. Remember that initial costs usually involve a complete ERP system for a single site. Additional sites and modules will increase the cost. A solution quote usually includes software, first year support and implementation consulting. Total cost of ownership, however, takes into consideration per user license costs, training, maintenance, customizations, upgrades, internal costs and other fees.

If the system is Cloud or Software as a Service, take a hard look at the Service Level Agreement for any hidden costs such as system enhancements and upgrades.

It's a fact that the scale of most ERP projects makes it difficult to stick to a fixed price. ERP vendors that offer a fixed price might exclude training or other necessary tasks from quoted fees. Be aware when signing these contracts – or have an ERP consultant confirm that all inclusions and exclusions are noted on the contract before signing to ensure clear expectations.

BEST PRACTICE 3: CONSIDER TECHNOLOGY STRATEGY

It makes sense that a manufacturer's IT department weighs in on an ERP selection project. IT should make any requirements to the project Steering Committee at the outset. As an example, are there sufficient IT resources to maintain and upgrade the system? Can existing staff handle the new technology platform? Does IT have the necessary infrastructure to facilitate an on-premise system, including severs, database management, security and safety protocols? What is the overall IT strategy of the enterprise? Do the ERP vendors being evaluated offer the technology model that makes sense for the overall enterprise?

"DO THE ERP SYSTEMS BEING EVALUATED OFFER THE TECHNOLOGY MODEL THAT MAKES SENSE FOR THE OVERALL ENTERPRISE?"

BEST PRACTICE 4: SCRUTINIZE THE VENDOR

How important is it to the company to pick a vendor the will remain a market leader for the upcoming decades? The industry has been in consolidation for some time. Vendors that were thought to be market leaders have been acquired. Does it matter if the vendor the company might choose gets acquired in the next few years? Today there are four vendors with revenues over $2 Billion in annual revenues: SAP, Oracle, Microsoft, and Infor. These four vendors have the financial strength to outspend their smaller competitors on technology in the future. But, also consider that the smaller niche vendors offer solutions tuned to vertical solutions, and often come with a lower price. What is important to the company?

Also consider – do the major players make sense for the manufacturing company? ERP software now needs to be selected to accentuate competitive advantages that will increase profitability through decreased costs and fine-tuned processes. Although no ERP software will be able to accommodate all requirements out-of-the-box, changing focus to what's important will provide the best advantage in finding the right fit.

BEST PRACTICE 5: UNCOVER REAL CUSTOMER REFERENCES

Once a company has whittled their choices down to an ERP shortlist, it is commonplace for an ERP vendor to offer a small selection of carefully selected customer references o speak with. Our team suggests another approach. Ask for a list of specific, relevant customers that have been using the system for a year or more, in the same industry and facing similar requirements.

It's also beneficial to seek references from manufacturers of a similar size. From this list choose who to speak to, and visit at least one of those companies in an on-site vest. Prepare in an advance for this on-site reference visit, and bring a team of appropriate managers and departments for the most accurate assessment.

Parting Thoughts

The strategies noted above provide a framework for an efficient and effective ERP project. A careful ERP selection process builds a foundation of information, education, and documentation that will increases a company's project success.

Our team has decades of expertise in these best practices -- from developing a list of vendors for consideration; to identifying the leading vendors in the vertical industry; to conducting due diligence to make sure those solutions on the short list will deliver value to the organization.

With these tactics, manufacturers should quickly establish a list of vendors to be considered for the company, and achieve an effective ERP selection project.

About Ultra Consultants, Inc.

Ultra Consultants is an independent consulting firm serving the manufacturing and distribution industries. Organizations turn to the Ultra team for ROI-driven ERP technology expertise and business process management that improves revenue and customer satisfaction, enhances financial management and real-time decision making, improves productivity and reduces time to market. The world's middle market companies make up the Ultra Consulting client roster including aerospace and defense; automotive; chemical; consumer goods; electronics; food and beverage; industrial equipment; medical device; metal fabrication and plastics manufacturers. Ultra Consultants offer deep experience in manufacturing process optimization. The team averages over 20 years manufacturing and process experience with professional certifications in APICS, Lean manufacturing, Six Sigma Green and Black Belt, and Project Management.

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