

A new approach to evaluating ERP

How the right framework can improve
business outcomes



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Rethinking the ERP evaluation process

Selecting an enterprise resource planning (ERP) solution is a major undertaking for any organization. Many senior executives are battle-scarred from previous experiences with ERP implementations, not all of which have lived up to their original expectations or aligned with vendor promises.

Companies today expect vendors to provide a vision of realistic ERP outcomes, stripped of hyperbole.

Meanwhile, the advent of the Internet and cloud computing has fundamentally changed the way ERP can be architected and delivered. ERP-as-a-service in the cloud means that customers can subscribe and use the solution

without heavy capital expenditures. They can also free themselves from the burden of maintaining and upgrading hardware, infrastructure, and software, as those tasks are all handled by the vendor.

Forward-thinking vendors are now focused on cloud-based ERP solutions that deliver outcomes for the business rather than simply investing in longer feature lists to try to outdo competitors' offerings.

This paper provides a framework for evaluating modern ERP that extends beyond a checklist of features and functions into the more useful and mature territory of ensuring ERP impact.



A brief history of ERP

While it may be a common acronym in IT and business today, to understand what ERP promises we need to go back to the 1960s. In 1964, as a response to the Toyota Manufacturing Program—the precursor to modern LEAN techniques—Joseph Orlicky developed material requirements planning (MRP). The first company to use MRP was Black & Decker in 1964, with Dick Alban as project leader.

Orlicky's 1975 book, *Material Requirements Planning*, is subtitled, "The New Way of Life in Production and Inventory Management." By 1975, MRP was implemented in 700 companies and this number had grown to about 8,000 by 1981.

During the 1980s, largely driven by the rapid expansion in computing technology, MRP—traditionally a mainframe or paper-and-calculator-driven function of supply chain practitioners—moved into the world of spreadsheets.

What used to take hours and days to calculate and re-calculate every time sales orders, purchase orders, or inventory changed was reduced to shorter timeframes.

However, it still relied on small and independent calculations that were isolated in silos. The advent of more affordable client server computing saw these calculations transformed into the basis of what became known as manufacturing resource planning, or MRP II (mostly driven by work by Oliver Wight). This brought together the modular, previously disconnected operational areas of inventory, purchasing, sales, and manufacturing in a combined application, which then used all of these elements to provide an overall planning function.

But it still did not connect these elements to the financial and other operational systems of an organization. That was left to a new

class of application—ERP. ERP brought together all aspects of an organization's IT systems into a single IT application, on the basis that one integrated system is better than multiple systems requiring complex integrations and significant maintenance.

However, ERP deployments have often required extensive customization as organizations attempted to fit them into existing business practices. This meant that upgrading to new versions became very expensive or, alternatively, not commercially viable, leaving users frustrated and incapable of taking advantage of developments in technology. That, in turn, stymied organizations' ability to compete with more agile competitors who were quick to react to the shifts in globalization, economic events, and technology advances.

It's time for a different approach.

Selecting the right ERP

Over the last 30 years, the process for evaluating software has evolved based on the constraints of traditional technology, aided by consulting organizations, which provided these evaluation services in an advisory or risk management role.

This has prompted the rise of the “search and select” organization and the Request for Information/Request for Proposal RFI/RFP process. A “tick the box” mentality endemic to this approach has bloated RFIs and RFPs with long lists of features, functions, and technical requirements. The implication was that the vendor that ticked the most boxes was the right selection for the business.

This process sought to address several factors:

- Functional compliance
- Technical compliance
- Risk mitigation
- Commercial compliance

Unwary businesses could be sold on the benefits of all-encompassing ERP that on paper had all the bells and whistles, but was practically unsuited to the organization when measured against outcomes. How many times have we heard the lament after an ERP implementation, “I have to use Excel to do reporting,” “It’s not user friendly,” “It’s clunky,” “We had to customize it,” or “We needed to get another application to do that”?

Go beyond box checking

An aged care provider wanted to implement ERP in order to improve its procurement process to drive efficiencies in the supply chain, negotiate better volume-related purchasing, and improve margins. It followed the classic process: RFI, RFP, third-party advisor, multiple demonstrations, shortlist, and finally selection. The third-party “search and select” advisor used an off-the-shelf template, bought from an online source, and sent it to four vendors in its entirety for response: 4,000 Excel spreadsheet lines of questions for vendors to respond to.

The advisor had not even bothered to excise questions pertinent only to manufacturing, distribution, or heavy asset maintenance—all irrelevant to an aged care provider. The third party acted as a gatekeeper to the client and claimed this approach gave it “a view of capability for the future.” Vendors were unable to get clear visibility of what the business really needed, severely limiting their ability to structure a proper solution.

In a separate, 665-line-long RFP, vendors were asked if their system could perform a series of tasks (see table). Leading vendors would claim to be able to tackle all of them, so how would this shopping list of functions actually help identify the best solution?

Must	Functional	Ability to make a one-off invoice payment via any of the payment methods
Must	Functional	Ability to make a batch payment via any of the payment methods
Must	Functional	Ability to issue a single payment covering multiple invoices
Must	Functional	Ability to authorize payments in accordance to authorization workflow, and business rules
Must	Functional	Ability to select payment method: BPAY, Direct Bank Transfer, Payments File download, or Cheque
Must	Functional	Ability to print checks
Must	Functional	Ability to make a weekly check payment run
Must	Functional	Ability to cancel checks, if required
Must	Functional	Ability to select payments to be made from approved, unpaid invoices
Must	Functional	Ability to run Accounts Payable aging reports showing list of payments to be made in a payment run
Must	Functional	Ability to hold unauthorized payments for further investigation, specifying the reason for non-payment

A new approach to evaluating ERP

An evaluation process that focuses on linking the organizational outcomes to the selection criteria will ensure the best chance of success.

This demands a change in the way we measure a successful implementation. Most RFI-/RFP-based opportunities use scoring criteria for the RFP that looks something like the following, on a scale of 100.

Functional Fit	30
Technology Fit	20
Vendor Reference	10
Commercial (Price)	40

However, these measures have never been tied to organizational outcomes, i.e., the benefits that an organization expects to achieve because of the implementation.



Because 90% of ERP solutions in the Tier 1 and 2 space have a functional footprint that will cover the requirements of most organizations horizontally, i.e., it will tick the boxes of most RFI/RFP questions, a new model of selection is needed. Let's have a look at the effort required to select an ERP based on the classical methodology in the table below.

This process has potentially little alignment to the outcomes required, optimistically takes a year to get to a decision, and imposes significant costs. Also note that if the organization decides to run the process itself, the timeframe will extend significantly, as organizations seldom backfill the roles of the people running the evaluation process.

Step	Who	Timeframe	Focus
Select evaluation partner executives	Management	1 month	Have a methodology for RFP process and in selecting ERP
Requirements gathering	Evaluation partner	3 to 6 months	Functional and technical requirements
Build RFP	Evaluation partner	1 month	Comprehensive list of above plus commercial construct
Invite vendors to respond	Evaluation partner	1 month	Completion of RFP by timeframe
Vendors respond	Vendors	1 month	Completion
Review responses	Evaluation partner, management	1 month	Review responses and rate
Shortlisted vendor presentations	Evaluation partner, management	1 month	Demonstrations of shortlisted solutions plus follow-up
Preferred vendor	Evaluation partner, executives, management	1 month	Commercial discussions, negotiation, and solution confirmation



Lesson learned: engage the business

A large government department went through the entire required procurement process, including RFI and RFP, and spent a considerable amount of time implementing the chosen solution. There was little satisfaction at the end. A “project team” was formed, which did the implementation, but remained separate from the business. The business only got its first view when end-user training was done, with consequent lack of ownership, finger-pointing, and lack of accountability.

Meanwhile, not focusing on business benefits meant that, while the system worked and could perform the required transactions, there was little real benefit for business stakeholders.

Business case first

A more effective approach is to first develop the business case for the ERP. Why do you want to do it, and what do you want it to achieve? This needs to be expressed as quantifiable business benefits, for example, increased revenue, improved efficiency, and reduced costs. Delays often occur in the process of an ERP selection when the business case is left to the end, after the vendor and solution have been selected. The business case is then built “in reverse” to justify the decision instead of being used to make the decision.

A business-case-first approach allows for organizational innovation and process renewal. Instead of shoehorning or customizing an ERP into an organization, the business case sets out what needs to be done—not how to do it.

The fact is, the core processes required for standard accounting and supply chain domains are adequately covered in most ERPs.

Avoiding ERP customization, even if that means some reforms to business processes, speeds the time to benefit and reduces risk for the ERP implementation by protecting against costly upgrades.

A business-case-first approach allows for organizational innovation and process renewal. Instead of shoehorning or customizing an ERP into an organization, the business case sets out what needs to be done—not how to do it.

A foundational principle of this approach is to adopt standard processes unless there is a business case, including a return on investment, for doing so.

This demands a greater emphasis on change management and requires tools to help staff adapt to the change.

On occasion there will be truly unique business processes that are central to an organization's success, but it is important to question any assumptions of "uniqueness."

If a unique process is identified (as opposed to unique fields and functions, which are often mistaken for a unique process) these should be listed and the outcomes related to these expressed as required reports, key performance indicators, or customer or vendor deliverables.

Then debate whether the processes are truly unique or "self-inflicted," i.e., do you do it that way because you always have even though

there is not a practical outcome? Then, calculate the benefit attributable to the business from this process in terms of additional revenue, decreased cost, or improved efficiency. These benefits should be quantified, i.e., if you perform this unique process then you can provide additional customer visibility to the sales force, which means they can spend X more hours in front of clients, which means you can expect a certain amount of improvement in revenue.

Once these estimates have been done, select the vendors that might address the unique processes (this is often possible using a simple Internet search). This provides a starting list, which, coupled with filters on technology, implementation capability, and customer references, should establish a manageable shortlist.

Typically, you would not want to have more than three vendors on a shortlist, though in rare cases one vendor will stand head and shoulders above the rest on these key requirements.

Be prepared to open the business to vendors. Too often in the classical scenario we find that the nature of the RFI/RFP process means that vendors are excluded or allowed minimum contact with the customer. In several cases where third-party search and select firms have been involved, they act as “gatekeepers” to protect their revenue stream (each hour of consulting is billable revenue) and secondly to retain “control” of the vendor.

This limits the vendor’s ability to fully respond to the customer’s real needs, and risks wrong assumptions being made regarding scope and cost.

Instead, open the business for discovery. Once you have set the bounds of the scope, allow vendors time to access current users, managers, and executives to get a real understanding of what the business is about and the processes it needs to perform. While this may seem excessive, compare the time taken with that needed to create and manage an RFI or RFP.

Secondly, give vendors real data so they can set up a walk-through of the standard system process in their ERP for the unique business requirements defined above. Have stringent requirements for the workshop: no customizations, one week to prepare, and defined outcomes. Have the vendors come back and workshop (not just demonstrate) these processes to the business. This allows gaps to be identified (at a high level), but also gives enough visibility into where configuration is needed or whether the solution needs to be customized. Both customer and vendor are then able to quantify the impact of customization from a time and cost perspective.

Give vendors time to work out how to address any gaps, return to the business, and demonstrate their proposed solutions. If necessary, allow a limited amount of time to validate non-standard processes. Workshop the implementation, making sure that the vendor factors in delivery of the business benefit. It is not enough to base the implementation on configuring the solution. The end goal is to achieve business benefits. Therefore, all activities must be aligned to the goal.

Step	Step	Timeframe	Focus
Build business case	Management and executives	1 month	Quantifiable benefits of new ERP
Identify unique business processes	Management	1 month	Processes that are unique or contribute directly to the required business case outcomes
Vendor workshops	Executives, management, key users	3 months (1 month for the business case per vendor)	Workshop the outcomes required for the business case
Preferred vendor	Executives, management	1 month	Commercial discussions, negotiation and solution confirmation

Lastly, regarding customer references, all vendors will put their best references on the table. Typically, these have focused on features and functions rather than processes and benefits. Instead, ask reference customers:

1. What were your key/unique processes and how did you achieve them?
2. Did you define a business case for the project and did you achieve the benefits?
3. How long ago did you implement the process and have you maintained or improved on those benefits?

While this is a short-cycle, intensive process, the overall disruption of the business is less, and the "irritation" factor is reduced. Staff members do not have to educate third-party consultants, vendors, and then potentially vendor partners. Instead, there are short, intense bursts of activity that provide a focused perspective on critical processes.

Summary

We need a better model to evaluate ERP applications.

First, understand the benefits that are required. Next, align the processes required to achieve these benefits, then workshop these processes with a researched shortlist of vendors.

Define the gaps and the amount of work to achieve these, but only if they are material to achieving the benefits.

Reference clients of the vendor to test their achievement of business benefits and, most importantly, structure the implementation plan around realizing benefits.

This method aligns the selection process to desired outcomes rather than just performing an orchestrated due diligence with no alignment.

It also allows for a shorter evaluation cycle and aligns the benefits to the implementation, thus providing a more realistic opportunity for a successful outcome.

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