SUCCESSFUL ERP SELECTION

Mark Crook (pictured) of Harriman Green talks about a best-practice process for replacing your core IT systems.

Let's first of all define what we mean by an ERP, or enterprise resource planning, system. Its origins lie in the manufacturing industries where initially we had MRP or 'material requirements planning' systems. These software applications enabled complex production plans to be put together, ensuring that all the component parts could be made or purchased then assembled into finished products in the quickest time with a minimum of excess inventory.

Then came MRPII or 'manufacturing resource planning two' which took into account not only materials, but resources such as labour, machines, subcontractors, transport, warehousing, etc and compared demand against capacity so that a production plan could be continuously executed and updated.

ERP then developed and has been widely adopted by many companies, whether manufacturers or not, to provide a single software solution for all their processes. ERP integrates internal and external management information across an entire organisation, embracing finance/accounting, manufacturing, sales and service, customer relationship management and so on.

ERP systems automate this activity via an integrated software application. Their purpose is to facilitate the flow of information between all business functions inside the boundaries of an organisation and manage the connections to outside stakeholders.

This is a major task and one not to be taken lightly. IT analyst Gartner estimates that 55-75% of all ERP projects fail to meet their objective; many are cancelled before completion.

Much has been written about the causes of failure, but it is generally agreed that the fault rarely lies simply with software selection. More likely, failure is as a result of not defining what the true requirements were, not getting buy-in from those users who have to implement the new system, and not getting full executive support for the project.

Selecting and implementing a new ERP system is not just an IT project, it's a business project which should be addressed in the same way as any other capital expenditure, with essential steps such as risk assessment, benefit analysis and performance objectives. To systemise current processes without a review of how they could first be improved is a recipe for making the same mistakes again – only faster.

The use of an outside, independent consultant can help companies formulate their specification or statement of requirements, teasing out those specific features which are significant to the success of that organisation and bringing knowledge of best practice elsewhere.

Beware of those consultancy companies who have a single solution or who are tied in with a particular software vendor. Package solutions dominate the marketplace but some are so generic that they require as much investment in consultancy configuration time and fees as the original software licences.

Ideally, look for suppliers who have a track record in your industry, they will know the in's and out's that you have to deal with.

You will need to form a project board with representatives from appropriate departments and then elect a project manager, ideally one of the management team who has been involved from the start with the selection process and whose reputation will be enhanced by the successful implementation of the project. Losing an executive sponsor or project manager can seriously compromise a project – so choose carefully.

For common information systems to work across the organisation, all users must adopt, adapt and adhere to common work methods supported by the application. This will necessitate change – and getting users to accept change can be a substantial challenge.

Look for 'champions' in the various departments who can see the benefits of the proposed changes and be evangelistic about them. If there are real problems, then uncover them and bring them back to the board to be resolved; don't let them fester and be the cause of wider dissatisfaction.

The statement of requirements should summarise the objectives that you are seeking to achieve from the new software, but then follow that with a series of detailed line items split by function – eg, sales and marketing, purchasing, stock control, production, accounts, etc. These should state what the software must do – eg, part numbers up to 24 alphanumeric characters, ability to show true landed costs, etc.

The board must approve this document and add weights to each requirement on a scale of 0-5 where 5 is the most important and 1 is the least important. When eventually validating these functions during software demonstrations, the line items can be marked for fit on the basis of 0-4, roughly corresponding with zero for no fit, 1 for a 25% fit, 2 for a 50% fit, 3 for a 75% fit and 4 for 100% fit.

Thus each function can be given a weighted score of between 0 and 20. By measuring each solution against the same yardstick and coming up with a total score, you should be able to come out with a 'best fit' scenario which you can justify and is documented.

Having prepared your statement of requirements, who will you send it to? Check out the web, trade magazines, exhibitions and your team; speak to your suppliers and customers (connection with them will be vital).

You will have specific requirements around the size and financial status of the potential suppliers. But what about their culture? It is often difficult to assess this at this stage but it is certainly a factor that you will need to bring into the equation and something which your selection team will get a feel for during presentations.

No matter how well you specify your requirements now, they will develop and change in the future. Is this potential supplier going to be in the forefront of software development for your industry, will they be amenable to changes that you propose? With many takeovers taking place across software companies, 'backing the right horse' can seem like a gamble. You should expect your software solution to be in place for at least five to seven years so choose your partner with care.

A further point to consider is whether or not to deploy a cloud-based solution. Cloud computing is still in its early stages in the UK. There are concerns about security. In April 2011, the Ponemon Institute in Michigan, USA – a research centre dedicated to privacy, data protection and information security – surveyed 127 cloud computing suppliers (103 in the USA and 24 in Europe) and concluded that many regarded security as mainly their customer's problem.

Over 60% of the cloud providers surveyed expressed a lack of confidence in the security of the cloud services they provided. In fact, 91% said that they didn't currently provide Security as a Service from the cloud, but about one-third were considering doing so in the next two years.

Despite this, it may be appropriate to deploy a cloud-based solution in some areas – such as initial start-ups, or if you are taking over new subsidiaries where the number of licensed seats required may not be known or may change rapidly.

You need to compare the cost of a cloud-based solution to that of owning and managing your own hardware infrastructure where the life of a server may be five to seven years. Should you decide to outsource your hardware and/or software, you will need to establish acceptable service level agreements (SLAs). Adopters will generally find they are paying overtime rates for any work done out of normal hours. Outsourcing is not a simple way of divesting responsibility.

If your organisation has operations overseas, consider whether the ERP solution is going to be deployed there too. Is the software available in the appropriate language and, perhaps more importantly, does the software vendor have sufficient levels of support there? If your operation works 365x24x7 then some software vendors will provide cover from different time zones to give you full round-the-clock cover.

Once you have received initial responses from potential suppliers, you should be able to reduce the long list (typically around 12) to a shortlist of three or four. It is essential that you then arrange to see the software demonstrated, preferably at the supplier's own premises. This will give you a feel for their presence in the marketplace, their organisation, their expertise and their culture.

However, before embarking on this, you should invite the shortlisted suppliers to visit your own organisation to help them understand your business. No matter how well-structured your statement of requirements is, the opportunity to see your business in action will be very revealing.

You should specify what particular business functions you want to see demonstrated and also provide the potential suppliers with some of your own data (product descriptions, part numbers, etc) so they can incorporate these into their demonstrations. This will make the demos much more realistic to your evaluation team and ensure you are comparing like with like.

Seeing software demonstrated is a time-consuming task. Do not expect to review more than one package in a day. The evaluation team, ideally comprising representatives from the various functional departments, should each score the detailed line requirements and make notes about the way the software handles various elements.

Different packages work differently to achieve the same result and you may need to change your thinking if a 'better' approach can be demonstrated. Don't dwell too long on issues that cannot be immediately resolved but note them down and ensure the supplier notes them too and is prepared to come back and answer these at a later date.

Beware an excessive amount of bespoke modifications as these will become problematical when an upgrade to the next version of the software comes along.

Do ask for a list of reference sites from each potential supplier. Ideally you want a long list from which you can pick a couple at random. This may be difficult (if not impossible) if the list includes your competitors but look for a business that has similar issues to you own in terms of sourcing, delivery, finance, etc.

The things that you want to know about are (a) the ease of use of the software, (b) the service that they receive from the supplier – ie, the response times, their depth of knowledge, etc, (c) how long it took to implement, (d) would they choose the same supplier again and (e) what lessons have they learned from the experience?

Once you have seen all the potential solutions demonstrated, the evaluation team should meet and compare notes. Hopefully a clear winner will emerge. If not, feel free to arrange further demonstrations.

Once you have a solution that fits your requirements, then consider the costs being quoted. There is always room for negotiation on price but take care not to squeeze out the essentials such as training costs – usually the first casualty! You may decide on a 'train-the-trainer' approach but make sure sufficient resources are put in place so that change happens.

Ensure that your chosen supplier has a defined implementation methodology. A 'board room pilot' or prototyping stage with a representative sample of real data is an ideal way of testing the software configuration before launching it fully. Also make sure you have made adequate allowance for 'cleaning' the data before you transfer it across to a new system as this is an ideal opportunity.

Once the processes are defined, the hardware infrastructure is in place and users have been trained, then implementation can begin. Ensure you have milestones in place and that you monitor the progress through RAG (red,

amber, green) status flags. Make sure any problems are reported and dealt with. Keep control over costs.

Finally, when the project is complete, conduct a post-implementation review and measure the achievements against the success criteria you originally defined. It is likely that the world will have changed and you will now be looking to add even more functionality. Hopefully, if you have chosen the right supplier, this will not be a problem.

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