aACE
WHITE PAPER

# How To Choose An ERP Solution:
## A Four-Step Process




aACE
212.532.1378
info@aACEsoft.com
www.aACEsoft.com

Growing a successful small or mid-sized business puts many demands on an entrepreneur. Wise business owners know that one of the most important demands to respond to is re-investing in the company. This can be done through marketing, hiring, or upgrading tools. And among the most valuable investments a business owner can make is in quality business operations software, often known as an enterprise resource planning (ERP) system.

As the software advisors at SelectHub.com have explained, a quality ERP solution saves money, improves collaboration, improves analytics and productivity, simplifies compliance, enhances inventory and production management, and most important of all, helps you keep customers happy.

However, an ERP system is clearly not a simple plug-and-play peripheral like a wireless mouse. It's crucial that you find the right ERP solution for your business.

A quick online search for "failed ERP implementations" will yield many horror stories. Burdensome costs, poor performance, unhappy users, or automation gone wrong are just a few ways that this kind of software can slow a growing company.

Obviously this is not because ERP software, as a whole, is bad in some way. Our experience has shown that the common denominator for a bad experience with ERP is a lack of due diligence. This may sound harsh, saying in effect that these companies brought their problems upon themselves. But like a glass of water half-full, there's another way to look at it – when a company *does* perform effective research, they're well on their way to finding the ERP match that will take their business to the next level.

This white paper will help you understand the due diligence that can make a difference for your future. First, we'll explain a reliable, time-tested, four-step process for selecting the right solution that first-time buyers can easily follow. Then we'll provide concrete, actionable advice about how to evaluate the various ERP tools out there so you can find the match that is right for your company.

> *"You are not working for your ERP software; your ERP software needs to work for you."*

# A Four-Step Selection Process

Although it may seem counter-intuitive, the first step is not to start reviewing ERP solutions. Instead, begin by clarifying your unique requirements. This means taking a careful look at some of the details of your operations.

**Step 1: Develop ERP Narratives**

The general need for an ERP solution may be obvious for your business. But to get the best ROI for this kind of complex software, you need to drill into this idea with greater granularity. Why exactly does your company need ERP? What are the specific challenges it will address and what values will it add? During this analysis, you need to rigorously examine each benefit to ensure it is a need and not merely a want. This distinction may be different for different companies; only you and your staff will be able to discern the needs from the wants.

As a general example though, we can look at cars. The most basic need a car addresses is getting from point A to point B on your own time frame. A secondary need might be having a vehicle that is extremely reliable, so you won't be burdened with maintenance costs. In contrast, you might want a car with a sophisticated sound system or with leather seats and warmers.

Similarly, choosing the right ERP solution must focus on your business needs and not wants. This isn't to say that wants have no place in your decision-making; however, they should be considered at the very end of the process, if you have found multiple products that each meet your company's needs.

One outstanding method for both identifying and articulating your business needs is to create ERP narratives. Many people have heard of the power of narratives for businesses at the macro-level, as described in the work of Chip Heath and Dan Heath or in the book, "Narrative and Numbers: The Value of Stories in Business" by Aswath Damodaran.

A less well-known benefit for narratives comes from using them to analyze your workflows. To leverage this kind of micro-narrative, write up descriptions of what happens during your daily operations, framing events like a simple story. For example: "When a client calls, we do this, then we do that; if A is true at that point, then we do this, while if B is true, we do that." Spend some time to get a thorough description of each task your personnel handle in your business each day. Additionally, don't forget to include common mistakes that may be consuming meaningful time or resources.

This approach is easier and much more valuable than merely creating a list of ERP features that seem useful. One of the main values a narrative brings is its ability to convey the underlying process and provide context to the needed features – valuable information that a mere checklist could never generate. Another benefit of using ERP narratives is how they can help you avoid feature tunnel-vision. When your attention is focused on effective solutions rather than bells and whistles, you're better able to identify the software that's right for you. Clearly, there's not much value in purchasing a solution that has "tons of features" if those features don't actually support your workflow.

> *"The value of an ERP narrative is its ability to convey the underlying process and the surrounding context."*

Once you have a more detailed description of your ERP requirements – working from the various starting points and documenting the steps your team takes to bring things to a successful conclusion – you're ready to move forward. Take the narratives one step farther: create a second version of each one, changing what *normally* happens to what would ideally happen.

This is where another value-add from each narrative shines: they can help you identify ways to enhance your operations. For example, if your normal inventory narrative involves a worker carrying print-outs back and forth between the office and the warehouse, an *ideal* resource-planning story might have your warehouse staff equipped with a tablet that replaces those papers. The question to ask is, "Now that we've documented what we do, how could it be done better?" When you've answered that, you have a strong start on identifying the ERP solution that is right for your company.

**Step 2: Estimate Value**

The next step is to get an understanding of the value range of an ERP system. A good place to start organizing a budget for business management tools is by estimating the cost of *not* upgrading. Your ideal ERP narratives will prove useful once again during this phase.

When estimating the potential value of an ERP implementation, people tend to focus on efficiency, which is a good starting point. When you compare your normal narratives to the ideal narratives, it helps identify where improvements can be made. Then it's just a matter of quantifying that difference.

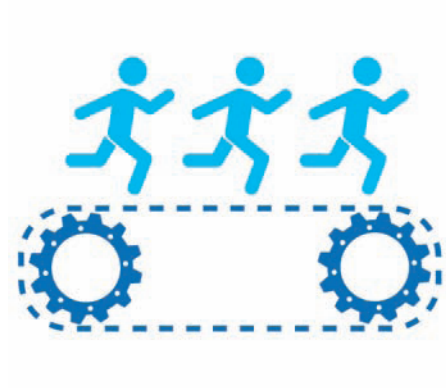
For example, you might estimate that automatically populating an order form with customer data from a fully integrated CRM or accounting system could reduce order entry time by two minutes and prevent four thirty-minute mistakes per month. Calculating the average number of orders and prevented mistakes throughout the year will allow you to estimate how much time you can save with a fully integrated ERP solution on that one task alone. Then rinse and repeat for the other duties your personnel accomplish every day. Time savings can easily be converted into cost savings by considering the average cost of the respective personnel.

Identifying such bottlenecks in your current narratives by using your ideal narratives will help you estimate the cost of staying with your existing systems – expenses you might not realize you've been paying.

You won't be able to predict every single problem that may come up during business hours, and you don't need to. The more common and more costly errors should be easy enough to identify. And compared to the relevant ideal task narrative, the time and money savings should be apparent. Of course, we need to be realistic – no software solution is going to suddenly transform your operation into a perfect machine of productivity. But every complex human enterprise will have some room for improvement and being aware of trouble-spots is a great step forward.

A third estimate that will help you accurately value a new ERP system is to lift your sights to the higher-value activities. For every recurring problem, and even for every recurring task that goes exactly right, there is a cost in time. If you could free up just one hour each week, where could you invest those 50 hours per year to have the greatest impact on your company's bottom line? Is it designing a perfect marketing campaign for your top clients? Is it making calls to keep potential investors aware of your progress? Or maybe being able to push for more competitive pricing quotes from your suppliers?

> *“Inefficiencies in your current system could be costing you more than you think.*
>
> *Remember to factor in these hidden expenses when weighing the cost of sticking with what you have against the cost of a new ERP solution.”*



The fact that normal, daily bottlenecks prevent you from accomplishing some of these higher-value goals needs to be acknowledged as a cost arising from the present way of doing things. As an example, could you have a receivables clerk stop doing data entry and start following-up on past due invoices? This could both improve cash flow and also eliminate the need for a new hire in the future.

After reviewing the costs of inefficiencies and bottlenecks, of errors and lost opportunities, if you are not simultaneously astonished and appalled by your calculation results, then congratulations! You do not need a new ERP solution.

However, it's more likely that you now have an even stronger case than you thought for upgrading your business management software.

**Step 3: Understand the Market**

At this point, you're ready to start preparing for ERP vendors. The most effective approach is to be patient. No one starts off knowing all the vital questions that can make the difference in your software deployment. And as we've just uncovered with the idealized task narratives, an ERP system has so much potential benefit that we want to avoid a hasty misjudgment.

Start your ERP education with sources such as SoftwareAdvice.com and SmallBizTrends.com. CIO.com also has materials by authors Josh Fruhlinger and Thomas Wailgum that give compelling reasons for doing thorough due diligence prior to an ERP deployment. Sites like these can help you understand the ERP industry, the terminology used, and the general questions that need to be answered.

You will quickly discover that ERP solutions vary in cost dramatically, from several hundred dollars to the millions. The reason for this is not as simple as with some other products: more features may not necessarily equate to a higher price, to improved quality, or even to a product that better meets your needs. Because having a clear understanding of how ERP software solutions are priced will help you make the correct decision for your business, we'll share some of the insights we've gathered from our 15+ years of experience in the industry.

**Three high-level questions to consider before an ERP Implementation:**

- *What are added benefits of ERP software for your specific industry?*
- *What are the factors that lead to ERP project failure and to success?*
- *What related technical considerations need to be addressed, such as on-site versus cloud deployment?*

## *Five Key Factors for Understanding ERP Pricing*

### 1. The View

This is the dominant factor. The more views the software supports, the larger the company it is designed for and the more expensive it will be.

To understand what a view is, imagine logging into a smaller ERP solution: you might be presented with a single view of the data, showing sales opportunities on the left and cash balances on the right. This would be a single, very wide view. Such a view would be useful for an owner/operator, but it would be irrelevant – if not harmful – for everyone in a 100-person organization.

In contrast, imagine a larger ERP solution: it would provide more ways that the data can be segmented to meet the needs of various users. And because of these additional views of the data, that solution would have a correspondingly higher price. Detailed segmentation makes large ERP systems more role- and process-focused. It also gives greater scalability, since a solution with more views offers more ways to deploy the system for an increasing number of roles, while a solution with fewer views can be quickly outgrown.

Keep in mind that the principle benefit of larger ERP solutions – the ability to segregate additional duties – can be great for one organization, but detrimental for another. Too much segmentation results in unwieldy, hard-to-use software; too little results in software that may quickly become insufficient. Therefore, it is important to choose a solution designed for an organization of your size and which supports a level of segregation that will be necessary for the foreseeable future.

### 2. Market Size

The second most important pricing factor is the size of the market for a certain solution. Solutions designed for a niche market will have higher prices because the potential customer base is smaller. The advantage of such a product usually comes from being designed to meet the specific requirements of a particular industry. Off the shelf, it should contain many of the necessary forms and processes. For example, a pest control solution might have fields for the types of pests and the required protective gear.

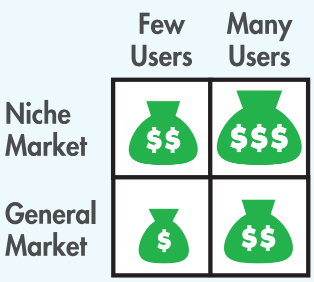
With niche ERP solutions, you need to be careful because they are often limited in other critical areas, such as CRM features, purchase orders, accounting, inventory, system administration tools, etc. It's vital that you evaluate the presence and capabilities of these other functions even if an industry-specific ERP solution is what you are looking for. This is because in niche software, the "industry-specific" section often represents less than 10% of the feature set, while common business operations make up the remaining 90+%. This functionality ratio means that finding a general solution you can modify to your unique needs may be both more effective and less expensive.

### 3. Degree of Customization

ERP solutions that cannot be customized to your business needs should be substantially less expensive than more flexible solutions. This flexibility is often desirable, but it comes with a cost of education, configuration, and ongoing support. Customization requires a team of highly skilled people who are well-versed in both business and technical matters. They will be engaged not only during the initial implementation, but also on an ongoing basis for support and continued development. In general, the greater the human component, the greater the overall cost of the ERP solution.

### General ERP Pricing Principles – The Four Quadrants

*While ERP pricing may seem complicated, there are general principles that can explain most of the costs. Understanding how these principles affect price can help you prepare for more detailed discussions with ERP vendors. In general, there are four quadrants that set an initial pricing estimate:* ***few users*** *and* ***many users****, plus* ***niche market*** *and* ***general market****.*




***The most expensive systems: Many Users + Niche Market quadrant***

- *Used by major corporations and large government agencies*
- *Offer many role-specific views of the data*
- *Provide more customization options*

***The least expensive systems: Few Users + General Market quadrant***

- *Used by millions of smaller companies*
- *Offer few role-specific views*
- *Provide limited customization options*

***Additional circumstances that have broad application for your software decision:***

***Company Growth:*** *As your company grows, you will need to split job functions into increasingly granular roles. When determining whether an ERP solution is a good fit, evaluate the need for role-specific views and make sure the system offers the necessary scalability for the near future.*

***Industry Size:*** *The smaller your industry, the more difficult and expensive it will be to find ERP solutions that match your industry's requirements. Furthermore, you may find that while solutions designed for your industry are good at the 10% of functionality unique to your industry, they may offer poor performance for the 90% of functionality that is common across businesses.*

***Industry-Specific Needs:*** *The greater the need to meet your company's or industry's specific requirements, the greater the potential need for customization, and often the greater the cost.*

***Transactions and Locations:*** *The higher the volume of transactions and the more dispersed your workforce, the greater the cost.*

### 4. Vendor and Other Costs

As mentioned above, the software itself is only part of the grand total. Different vendors will offer various levels of training, data migration services, customization, and ongoing support. There may also be other expenses required for an ERP purchase. High-end software may require hardware upgrades. Additional licensing may be required for users to access certain features. Exercise due diligence by asking the vendor to provide a listing of possible sources of cost.

### 5. IT Requirements

This is the least important of the top factors when evaluating ERP solutions. A massive multi-user solution capable of processing a million transactions a minute will be substantially more expensive than a smaller solution, but most small and mid-sized enterprises don't need that level of computing power. Instead, the most important decision factors should involve the key software facets you identified with your ERP narratives. Your business needs must drive your technology; success is unlikely the other way around.

At this point, you should be able to quickly narrow the list of potential ERP solutions from dozens to a shortlist of top candidates. The guidelines we've discussed so far will also ensure that you avoid major incompatibilities between your needs and your chosen solution. It's likely that the candidates on your shortlist will offer similarly priced solutions. This can help you gauge your position in the pricing spectrum and provide a starting point for your budgeting requirements.

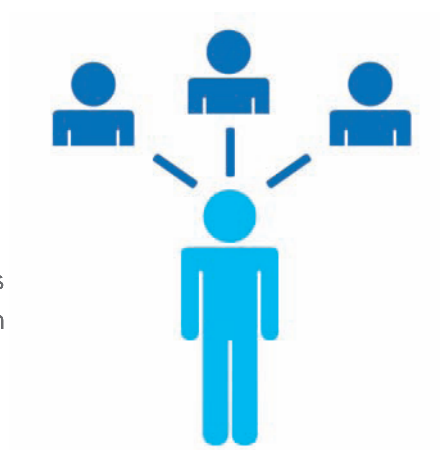
**Step 4: Evaluate Specific Solutions**

After this preparation work, you will be thoroughly prepared to find the ERP product that is right for your company. The search often proceeds best when you first make use of software matchmaking services.

ERP matchmaking services, such as SoftwareConnect.com, will ask you questions concerning your needs, budget, and timeline, then match you with the number of vendors of your choosing. Even though these services are neither comprehensive nor unbiased, and they tend to be feature-focused rather than centered on business processes, they do provide a good starting point for your search.

Equipped with a honed list of candidates, you can be confident in contacting these vendors for demonstrations. Make sure to leverage your work on the ERP narratives at this point. Ask the vendor to provide a demo that conforms to your ideal narrative. Not only will you learn about the product, but their willingness to accommodate this request will also tell you something about what a working relationship with them would be like. If the vendor cannot demonstrate an exact workflow, ask them to show how their software would accomplish the same end goals or to describe the customization that would be required to accomplish your goals.

Remember that matchmaking services only provide a starting point though. Their automated processes can't provide the discerning insight needed for a major decision. After a few demos, expand your search to include word-of-mouth recommendations, web searches, and software directories like Capterra.com or others specific to your industry.

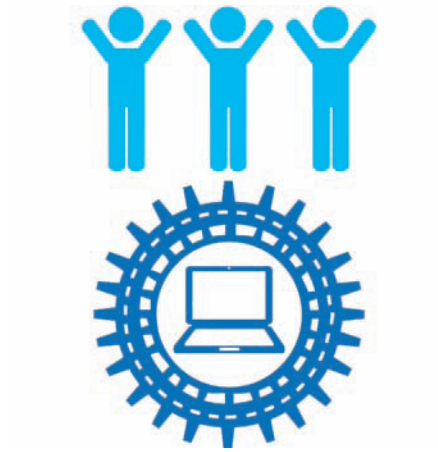


With each demo, you will find yourself gravitating to certain products for various reasons. Take time to reflect on how things went with each demo and why you find certain products more compelling. These findings can highlight important, unarticulated priorities which can help you continue to narrow your search.

# Closing Remarks

As a final word of advice, keep an open mind as you view the capabilities of each ERP product. It's important to walk between the extremes: Do not assume that your way is the best and only way to meet your users' demands, but do not throw aside your ERP narratives either.

There may be something valuable you can learn from a vendor, but in general, companies that alter their workflows often discover later that the chosen ERP solution is unable to deliver the anticipated benefits. One workaround has been replaced with another workaround, usually at a high cost in time and money.



The four step process we've explained here will serve you well as you investigate the best software to invest into your business. Develop your ERP narratives, estimate the value of an improved tool, research the general market, and then investigate specific solutions. In conclusion, the core concept of purchasing software bears repeating: you are not working for your ERP software; your ERP software needs to work for you.