

An Approach for Conducting Enterprise Resource Planning Assessment



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Abstract:

The failure to plan will lead to results that fall short of expectations. The same thing can be said of companies and their search for a new Enterprise Resource Planning (ERP) system. All companies undertake the search for a new system because they believe there is an opportunity to improve the organization, either by improving the revenue, decreasing costs or both.

But far too often, companies undertake this effort without having a plan on how to select a new ERP system. They fall victim selecting the product with the best sales presentation or the best cost proposal. There is not quantitative evidence that this new system will actually achieve the goals of improving the revenue or decreasing the cost.

So put an evaluation plan in place. No two plans will be the same but all should have the same basic concepts.

Build a Business Case:

An ERP system will be the most costly IT investment your organization will make. No decision maker is likely to approve this expenditure without understanding what impact this will have on the bottom line. You need to build a business case documents which articulates the quantitative and subjective advantages of a new ERP system.

Consider the impact on employee head count, the ability to grow without increasing staffing levels, improve control on inventory and purchasing, better information on decision making, streamlined business processes, improvement on A/R collections, and better visibility on sales activities.

Create Budget:

Regardless off whether your organization has a formalized budget or not, it is important to obtained permission from your decision maker to allocate funds to the projects.

How much should you budget? The simple answer is as much as you can afford. Remember that an ERP implementation project is a difficult change for every organization that you don't want to repeat often. It is prudent to invest in a large solution and grow into it rather than buying a smaller product that must be replaced after a few years.

Most industry analysts agree that the typical return on investment (ROI) is two years. If you have done your homework in building your case, you have already have an annual number for improvement on the bottom line. Simply double this number and that should start the discussion for setting your budget.

Document Requirements:

How do you know you have found the right solution if you don't know what you are looking for? Without this step you will fall victim to selecting the solution with the best sales presentation.

First and foremost, the requirement documents must align with the strategic goals of the organization. If the organization anticipates conducting international business in the future, then your new ERP system will need to accommodate multi-currency, multi-language and foreign regulatory requirements. If your organization plans to acquire other organizations, then multi-company capabilities with financial consolidation will be a key need. You must get with your executive team and founder to understand their vision for where the company is going and how the ERP system will need to support this vision.

Second, develop the list of major business functions you will need. Most vendors classify their modules the same way, which are listed at left. In addition, there may be some specialized industry modules you would need such as a retail point of sale or construction.

Third, develop some detail requirements for each area. Consider using an online resource for a comprehensive list of requirements by module.

And finally, priorities your needs. Not everything is critical for your operation. Priorities those items that align with key business strategies, provide high ROI or differentiate your organization from your competition. Remember, for many routine business functions, it's not important how the onion gets peeled as long as the end objective is achieved.

Survey the Market:

The next step in your plan is to identify a list of 5 -10 solutions that look like they might meet your requirements. There are verities of resources available to built this list. They includes the internet such as technology evaluation centre, industry trade Journals, personal references from colleagues and consultants.

Develop a Short List:

The goal is to narrow your list of potential solution down to no more than three. Demonstrations are time consuming. If you properly narrow down the list, you should not need to look at more than three solutions to find an offering that best meets your requirements.

How best to narrow down the list? There are no right answers. If time is not a factor, issue a request for information (RFI), which should ask each vendor to address your requirements list and to provide budget information for software, implementation services and hardware. You will need to supply the vendor with the number of users you will need.

If time is a factor, conduct a telephone survey with each vendor. Develop a lists of a few key questions to determine how well they feet your needs and ask them for budget information.

Don't underestimate the financial stability of the vendor. Over half of the top 50 ERP Products from the year 2000 have gone out of business or have been acquired. The last thing you want is to select a solution and then lose support shortly after.

Consider solution from some of the large ERP Vendors. There is a misconception that large vendor only have offering for Fortune 500. This is wrong. These vendors have good solutions tailored for the small to mid-size organizations.

View Demonstrations:

While demonstrations are an important part of the process, do not base your entire decision on this step. If you have followed the process above, your short list will likely contain solutions that will accomplish your goals.

The key to the demonstration process is to structure the agenda to allow you the opportunity to understand how each solution will address the opportunities identified in your business case.

To accomplish this goal, develop some test scenarios and ask each vendor to demonstrate how their solution would accomplish the task. These scenarios might include sample order documents or work order.

Don't tie the hands of the vendor by dictating how the process should happen! Just provide them the sample data and the expected result and let them show how best to get to this result. You might be surprised to find out that there really is a better way to peel an onion.

Request Final Proposal:

Upon completion of the demonstration, ask each vendor to provide a "Best and Final" proposal. This proposal should include estimates for software, implementation services, and hardware. Also ask each vendor to review your requirement list and discuss how their solution addresses the list.

Evaluate Options:

There are a number of factors that should be considered when making the final selection. These factors include:

Shortest Return on Investment:

Utilize your business case and requirements document to assess and quantify the ability of each solution to improve revenue or reduce costs. Then compare this to the total solution investment to calculate the ROI. Remember most expensive solution may be the best fit if the benefits derived are greater than the competition.

Vendor Ability:

Closely study the vendor financial and acquisition track record. If the product has been acquired by a larger vendor, you will need to understand what that vendors long term plans are for the product. Many larger vendors have acquired smaller ERP systems solely to collect maintenance revenue with minimal plans to enhance the application.

Implementation Partner:

Don't overlook the importance of a quality implementation partner. All ERP vendors will have implementation successes and implementation failures and they are rarely due to the product.

The two most influential factors to project success are the experience of the implementation partner and the commitment by the organization towards participating in the project. Make sure your implementation partner has a long implementation track record and experience consultants. Also important is the relationship you have with this organization. Look to build a partnership rather than a vendor/customer relationship.

References:

The reality is that no vendor is going to give you a bad reference. Does that mean you should keep this step? No, but perhaps an adjustment of expectation is in order. Focus on positives such as why they selected that particular product or implementation partner. Discuss what work well and what would they change. You may learn something from this type of conversation that you had not previously considered.

Negotiate Contracts:

This task always takes longer than you expect. Get your attorney involved early if you have an implementation deadline.

Conclusion:

Selection of perfect ERP systems is not easy task to consider the technical and financial point of view. Planning is another difficult issue for proper implementation of the whole systems. These guidelines should give a concrete idea for selection and planning of ERP systems. But Plans are good inventions but it has no worth unless immediately degenerate into hard work.