Typical ERP Evaluation Mistakes
Pitfalls to Avoid Before You Buy

a Blytheco Executive White Paper
Typical ERP Evaluation Mistakes

Introduction

When a business is faced with selecting and implementing a new business management software system, the software choice is usually the primary consideration: “What system will produce the reports I want?” or “Which application is most cost-effective for managing my warehouse operations?” However, exploring various software applications is only one component of the process of selecting a business management system that will allow your company to be as successful as possible. Software systems are significant investments for most companies, and solution evaluation should be a careful and thorough process involving consideration of often-neglected criteria. This white paper describes several of the pitfalls that software buyers encounter when evaluating systems for their business.

Executive Summary

• First-time buyers do not have the advantage of acquired wisdom of second-time buyers and are statistically prone to miscalculations in prioritizing ERP system selection criteria.

• When considering the purchase of a new ERP system, many buyers do not take into account the costs associated with using an outdated or inadequate system.

• It is critical to comprehensively identify needed features early in the selection process. Failure to do so may result in needed but unavailable functionality and/or expensive workarounds.

• It is a mistake not to include staff representatives in the selection process because user acceptance will determine in large part whether the choice is ultimately seen as “successful”.

• The single most significant decision in the ERP evaluation process is choosing a trustworthy consulting firm that will guide you through the process, providing services such as business process review and analysis, implementation, training and support. This choice can be the difference between a successful or marginal implementation of a new system.

• Failure to evaluate the range of products and financial stability of the software publisher can result in limited upgrade paths and possible discontinuation of products and services.

• Implementation, hardware requirements, data conversion, and needed enhancements, are often not given proper weight in buyer’s budgeting and scheduling estimations.

• Critical post-implementation support needs, including consultant qualifications, remote support availability, hours of operation, and the issue escalation process are frequently underestimated in the decision-making process.
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Top Eight ERP System Evaluation Mistakes

1. Faulty Assumptions

Most buyers have assumptions about what their criteria for system evaluation should be, and the priority of those criteria. As part of a study conducted by Deloitte & Touche¹, businesses looking for a business software system (ERP, CRM, HRMS or accounting software), were asked to name the top ten criteria for selecting a system. The responses were ranked in order of importance. Those who were in the process of selecting their first accounting system were ranked separately from those businesses that were selecting their second or subsequent system. The ranking changed significantly for firms who were looking to change from an existing system to a new one.

First-time buyers ranked their evaluation criteria as follows:

1. Price
2. Ease of implementation
3. Ease of use
4. Software fit to the business
5. Functionality of the software
6. Software compatibility with existing hardware
7. Growth potential of software
8. Level of support provided by experienced consulting partner
9. Quality of documentation
10. Software publisher’s track record

Second-time and subsequent buyers have the advantage of experience and acquired wisdom over their first-time buyer peers. Their rankings are therefore a better guide for those researching business system options. Experienced buyers ranked their criteria as follows:

1. Level of support provided by experienced consulting partner
2. Software publisher’s track record
3. Software fit to the business
4. Growth potential of software
5. Price of software
6. Quality of documentation
7. Functionality of the software
8. Ease of use
9. Ease of implementation
10. Software compatibility with existing hardware

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Buyers should carefully consider these criteria and avoid common missteps in the evaluation process that can jeopardize your software project and your business growth.

2. **Failure to recognize the costs of continuing to use your current system.**

If your current business management system is not enabling your staff to minimize costs and maximize efficiency, it is costing your company time and money. Performance problems related to increased transaction volumes or additional system users frustrate your staff, slow down the pace of your business processes, and often lead to data corruption or data loss.

Additionally, a system using outdated hardware and operating systems puts your company at risk. Unsupported infrastructure may be incompatible with current software applications, is difficult to maintain, and may jeopardize your data integrity.

Most importantly, your current system may not provide the functionality that your company requires. Older systems simply do not have the sophisticated capabilities of current technologies. If your application does not offer key functionality like e-Commerce, integration tools, remote capabilities, or other advanced requirements, consider the opportunities that you are missing to increase sales, streamline processes, and save money.

A few clues that you have outgrown your current system are:

- You need advanced e-Commerce capabilities.
- You want integration with third-party applications.
- You need to support remote users.
- Your current system does not provide needed features or functionality.
- You cannot generate required reports, or you need more sophisticated reports.
- You require system customization.
- Your system does not support the number of users your require.

3. **Lack of definition of specific functionality needs.**

If the system you choose does not offer the flexibility and scalability to meet current and future business needs, its life span will be dramatically reduced.
3. Lack of definition of specific functionality needs. (Continued)

Define the features that your business demands. Beyond basic accounting, distribution, and manufacturing functions, you may also require:

- E-mail integration
- EDI
- Bar coding and radio frequency data transmission
- Multi-company and/or multi-division processing
- E-Commerce
- Point of Sale
- Shipping automation
- Credit card processing
- Human resources and payroll management
- CRM, contact management, or sales force management
- Customization and personalization capabilities
- Support for multiple sites
- Flexible report writing tools and easily customizable reports
- Ability to migrate data from the previous system

Other key points for consideration include the availability of vertical components specific to your industry (like job shop processing, field service, or process manufacturing). Also, be aware of any compliance issues the software must meet.

The potential for integration to other applications should be analyzed closely. To eliminate data silos and keep up with customer expectations, businesses are integrating applications that contain vital customer information to create a single, customer-centric view across the entire organization. The most successful companies know that revenue growth and customer satisfaction require internal business processes that are connected and automated for maximum efficiency.

Take a long-term view when defining requirements. *Be sure the system is scalable enough to accommodate additional employees and sites.* If your organization plans to grow by acquisition, for example, evaluate the ease of integrating those acquired businesses into your system. Will industry trends require certain functionality, such as RFID requirements or e-Commerce?

If your team has not defined the anticipated benefits of a new system, your project will suffer from lack of direction. Keep in mind, however, that no system can fix every business problem overnight. Business challenges are often the result of years of neglect or mismanagement, and it is important that realistic objectives be set about the capabilities of any new software system.
4. Neglecting to involve company staff in decision-making.

Business management software is no longer strictly an IT decision. Since ERP software can affect every functional area of the business, systems decisions are now strategic business decisions.

The importance of management involvement cannot be overstated, as they serve as the visionaries and advocates for the project. A committee or task force composed of key players may also be assembled to provide guidance.

Including users in the system evaluation process helps clarify priorities. Users should be surveyed before the decision is made to determine needs, expectations and assumptions. They may want or need to use the system remotely, via laptops or PDAs. They may require integration to key productivity tools like Microsoft Outlook. Sales teams in particular respond well to systems with clean, easy-to-use interfaces and some ability to personalize their own use of the system. \textit{If end-users do not adopt the new system with enthusiasm, your project will not succeed.}

Communication with staff throughout the project can keep employees engaged and supportive of the process. Employees want to know how changes are impacting their day-to-day work; providing them periodic updates about the project will ensure that users feel invested in, and positive about, the new system.

5. Haphazardly choosing a consulting partner.

\textit{Choosing the right ERP system is important; choosing the right consulting partner is critical.} Technologies and capabilities that were once prohibitively costly and thus available only to large-scale companies are now much more affordable. Small- to mid-sized businesses have access to more technology options than ever before. However, these systems have only increased in complexity. The choice of a capable consulting partner to assist with implementation is more critical than ever.

Is the partner dedicated to ERP systems, or is technology one part of a larger business? Do they have a proven implementation methodology and good track record for client retention? Are the consultants publisher-certified in their area of expertise? Look for a firm that provides an experienced Senior Consultant to act as project manager, who can then “plug in” functional specialists (the financial specialist, the manufacturing specialist, etc.) as needed.

Companies often make the mistake of choosing a business partner by geographic proximity instead of expertise. With internet-based remote support tools available today, proximity should not be a factor. An experienced, capable firm equipped with the ability to perform support tasks remotely is clearly preferable to a local firm with less expertise. A large firm with multiple regional or local offices may be a good option if your requirements dictate a nearby physical presence.

Ask the consulting firm’s sales representatives if their organizations provide business process analysis and project management services, as well as custom programming, remote support, hardware support,
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and onsite and classroom training. How long has the organization been in business? They should also have a long and strong relationship with the publisher. Since the choice of a consulting partner can determine the success of your project (and often the career of the decision-maker), choose the company that is as ‘safe’ as possible.

Conduct careful reference checks of potential consulting partners. Do they have a record of success implementing systems for companies in your industry? Do they take the time to learn about your business before making a recommendation, or is it a ‘one-size-fits-all’ approach? An inexperienced partner will cost you money and time and expose your company to unnecessary risk.

6. Not carefully examining the software publisher.

While you expect to develop a close, personal relationship with a consulting partner, what should the expectations be of the company that develops the software? First, analyze their products and market. Are they dedicated to business management tools, or do they also develop and market consumer technology? A company with a sole focus on business tools will be more committed to you as a customer.

Ideally, you want to work with a publisher who will be able to provide solutions for as many facets of your business as possible. For example, if you can obtain your ERP, human resources, fixed asset management, and customer relationship management tools all from one source, maintenance of the system will be less complex than sourcing those solutions from disparate companies. Additionally, they should offer a wide range of scalability options. If you should require a solution to accommodate dramatic growth, migrating to a system from the same publisher will simplify the transition.

If the publisher is not a solid, established company, they may become the target of acquisition by a larger company, and the future of their products may be threatened. Have they been in business a long time and are they financially stable? How many customers are using their products? Do they release updates and upgrades regularly, demonstrating a commitment to technological innovation?

Explore the support services and other resources provided to customers by the publisher. They should have an easy-to-use website for reference materials and support information. Often, a consulting partner will recommend that you use publisher-provided technical support for your day-to-day support needs. Evaluate their support structure and inquire about responsiveness. Are their support represen-
tatives knowledgeable and professional? What are typical response rates and escalation policies? Do they work with your consulting partner when issues arise that are not technical support issues?

7. Underestimating budgets and schedules.

Get realistic about your budget. The price of the software represents only part of the total cost of a system implementation project; professional consulting services from a qualified consulting firm should comprise the remainder of project costs. Count on a one-to-one ratio of services costs to software costs for a thorough implementation of an ERP system. Services costs increase if custom development or vertical enhancements are required.

You will probably also need to make additional investments in hardware, networking components, or operating systems. A quality consulting partner can provide a thorough analysis of your environment and make recommendations for any replacements or upgrades necessary. Leasing software and equipment should be considered as an option and may offer some tax benefits as well.

Evaluate costs over the long-term. What are the annual maintenance or support fees? Neglecting to assess ongoing costs of maintaining and regularly upgrading the system can lead to unwanted surprises.

Some of the fees that should be understood and reviewed before purchase include:

- Software
  - Core system
  - Vertical enhancements
- Customizations
- Implementation Costs
- Annual maintenance and/or support plans (at initial purchase and in subsequent years)
- Infrastructure
  - Hardware – servers, workstations
  - Operating Systems
  - Security and/or data protection components

A complex, multi-site project could take six months or more. Less complex, single-site projects with minimal customizations might be accomplished within three months. Successful implementations require extensive planning, testing, validation, and user training. A comprehensive project will
consist of several phases, including extensive planning at the commencement of the project, and a thorough pilot and analysis phase. A proposed implementation project should include the following components:

- Needs analysis
- Project Planning
- Functional Requirements Definition
- Site preparation and equipment installation
- Software installation
- Application configuration
- Training
- Data conversion
- Customization
- Pilot
- “Go-Live” and evaluation of live system
- Post-implementation review

**8. Inadequate assessment of support needs**

It’s obvious in retrospect that support services are absolutely critical to any successful ERP System implementation. It’s surprising that to many buyers, support is an afterthought or near the bottom on their list of priorities.* Failure to consider the depth and quality of support options when making your buying decision is a dangerous risk.

Ongoing system support will include day-to-day technical support for users, as well as installation of upgrades to the software, periodic system reviews, system modifications, and more. Be sure that the consulting partner can offer responsive, high-quality ongoing support services in the locations and on the schedule that you require.

Your chosen consulting partner should be willing to guide you to the technical support option that best suits your users’ needs. During the first twelve to eighteen months post-implementation, your team will likely need ‘hands-on’ support provided by the consultants that assisted with the initial project and know your business processes. Once users become comfortable with the system, ‘help desk’-type support might be sufficient for day-to-day needs. Be certain the ‘help desk’ is able to address a variety of needs and skill levels. Can they provide time-saving and cost-effective remote support when appropriate? Are online resources available for 24/7 access? Is there a clear escalation process? Unreliable support can irreparably damage the goodwill that users feel toward the system, the consultants, and the publisher, and negatively impact the longevity of the system.

*See page 2. First-time buyers placed support at number eight on priority list, second time buyers placed it first.
Conclusion

We hope this white paper has added to your understanding of this complex process.

Failure to take a systematic approach guided by an experienced authorized reseller or consultant can result in unclear goals, unexpected costs, an undefined schedule, a problematic implementation, disruption to your business, or an unsatisfactory outcome.

Business management software only helps those organizations that have thought through the information they need to manage, control, and grow their business. The process of choosing software does not create the vision, it only illuminates the challenges and opportunities.

(Please see the Executive Summary on page one for a condensed synopsis of the the main points made in this white paper.)

Further Research

This guide provides only the most basic steps for evaluating a new ERP system for your business. An abundance of internet resources exists to guide your search, but the best resource may be members of your professional network. Research the systems and consulting partners that your customers or vendors have worked with successfully. Ask your CPA for impressions and recommendations. If you belong to industry associations or attend trade shows, make inquiries of people you meet at those meetings and events. Choose a quality system that meets your needs, and a consulting partner with a track record of success, a good reputation, and a history of industry leadership.

Footnotes

1 See the Blytheco whitepaper, “Top 10 Criteria for Selecting Accounting Software” (http://www.blytheco.com/whitepapers)

2 Data Silo: A separate database or set of data files that are not part of an organization’s enterprise-wide data administration. Data silos cost you money, decrease your flexibility, and reduce your profit.

3 See the Blytheco whitepaper, “It’s More Than Just Choosing Software” for a detailed step-by-step outline of the software implementation process. (http://www.blytheco.com/whitepapers)
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