Best practices for selecting midmarket ERP software

Navigating the ERP software market today can be a major challenge – with many options to consider. In fact, experts say there are over 80 different ERP packages available today. Determining what’s right for your organization means answering challenging questions about requirements, vendor services and deployment style – as well as taking into account key cost considerations while building a business case. In this eBook, get advice and best practices for every step of the ERP software selection process.

- Find out more about building your business case to justify ERP funding – and get insider advice about working with ERP vendors
- Get expert advice for navigating the market, including six steps to an effective ERP assessment and software selection
- Learn more about SaaS ERP vs. on premise, and learn how to determine which style might be the best fit for your organization
- Read tried and true expert best practices for implementation success, from consultants with real-world experience implementing ERP in different types of organizations

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Table of Contents

How to build a business case for ERP in today's economy

Expert advice for the ERP software selection process

SaaS ERP vs. on-premise ERP software: Six key differentiators

Seven ERP software implementation success factors

Resources from our sponsors
How to build a business case for ERP in today's economy

By SearchManufacturingERP.com Editorial Staff

The following interview on the subject of how to build a business case for ERP in today's economy took place between Ray Wang, Partner for Enterprise Strategy at Altimeter Group, and Brenda Cole, assistant site editor of SearchManufacturingERP.com.

SearchManufacturingERP.com: With the economy the way it is, the last thing most companies want to do is put money into unnecessary new software. Before any decisions are made, what questions should be asked to determine whether ERP is really the right move for your company?

Wang: Everything begins with the right business drivers. If you think about when you're in tight economic times, the focus should be on building business cases, allowing operational efficiency or meeting regulatory compliance. Now that sounds simple in concept, so let's put something into use. For example, if you can identify a commoditized process from an inundative process, you're actually in a good position. Now what's a commoditized process? That's something that can be repeated, automated, something that isn't adding much differentiation or value in your business.

Once you do that, you can do things like apply technology strategies such as ERP, put that into a shared service, tie that back in with an upgrade strategy, consolidate instances if you've got different versions and think about helping consolidation and even environmental sustainability. After that, you've got a business case in place where you can not only build upfront savings but ongoing savings, and then you can think about which is the right vendor to work with to achieve those savings.

SearchManufacturingERP.com: What about the Software as a Service option? How do you decide between implementing an in-house ERP system and using SaaS?

Wang: SaaS plays a significant role. For companies with existing ERP implementations, we expect hybrid deployment options like SaaS to provide purpose-built solutions or
innovations where many ERP vendors cannot or have not made adequate investments. You're not going to rip out your financials systems or some of your other core manufacturing systems for a SaaS option, but you want innovation. How are you going to bring that into your staid ERP environment? Well, some examples include functionality such as projects or project-based solutions, incentive compensation, talent management, e-recruitment and donor management.

In many of our studies, we show that over a 10-year period SaaS vs. on-premise makes sense for smaller enterprises -- those with 50 users, 100 users, even up to 250 users. Once you get past 500 users, it's more of a lifestyle decision for larger enterprises; you do break even, but you have to trade off some things. For example, SaaS makes sense because of the pricing model and rapid implementation, but for clients who require heavy implementation, support for high-volume transaction models or data security location issues -- the data can't leave the state or country or needs to be in a certain location -- this may not be the right option. You've got to balance the business requirements with what you want to achieve with SaaS.

**SearchManufacturingERP.com**: Open source software is growing in popularity. When would using an open source ERP package make sense?

**Wang**: There have been a lot of improvements in open source. There are some vendors that have done a good job in building ecosystems. Primarily, the source code is free; that's what makes open source attractive. The value of these vendors comes from their ability to provide support, maintenance and extensions. If you've got the technical know-how to self-deploy and you find the right support groups or capabilities to be adequate, then this is a realistic option.

We're seeing transaction across a variety of industries, from large public sector environments and academia to manufacturing and service-based industries. The trick is to think about your ability to self-support and the appetite you have for a scenario where you have no one to blame for the code other than what's in open source. Open source isn't that scary, quite frankly. I'm using a blog that's open source delivered and many companies are using open source products such as Linux. I think open source ERP is an evolving area and one of great interest, especially given the current economic environment.
SearchManufacturingERP.com: What about companies that installed ERP years ago, but are considering an upgrade? Would it be more cost-effective to install a whole new system, or should businesses consider refurbishing an old ERP system?

Wang: We get this question quite often. Once you factor cost, benefits, flexibility and risk - basically what we're calling the total economic impact of an upgrade -- if you take customers with heavy customization or integration to legacy systems, it's typically going to be cheaper to redeploy than to upgrade. The key is to evaluate the business processes that need to be supported and tie those back to the user roles. Are you able to achieve your business objectives with ease? If not, then you should start from scratch. If you can and you can keep what you have, then definitely consider the upgrade. Think about what areas you need to upgrade. There are four types of upgrades you may need to consider. Some are technical upgrades, while others are something that's much simpler, involving patches or areas that you want to move in modules. Some are complete system upgrades and others are just complete replacements.

SearchManufacturingERP.com: Let's talk about contract negotiations. What should be taken into consideration while negotiating a contract with a vendor? How long do software contracts generally last?

Wang: First of all, the license in most cases is perpetual. The contracts typical cover support and maintenance and last for three to four years, depending on the vendor. Key considerations are business drivers, technology adoption strategy or how quickly you're going to adopt the product and budget. The first step is to make sure you don't over-license for software you don't need. This concept called shelfware -- software bought but not deployed -- is really expensive, because you pay maintenance regardless of implementation. If you get a great deal on 1,000 or 10,000 licenses of software and you only deploy a third of that license, what you end of doing is paying for maintenance and, at 20-25% of the net license cost, it's the equivalent of buying new software every four or five years. It's very important to make sure you sign the licenses correctly upfront. The others areas where you should focus follow what we call the software ownership lifecycle. This includes selection, implementation, utilization, maintenance and retirement of software.
**SearchManufacturingERP.com**: Usability is a hot topic these days. How have ERP vendors improved the user experience of their products in recent years? Do you think usability plays a part in an ERP system's ROI?

**Wang**: Most definitely. This is an area that's been quite exciting in the last two to three years. We've seen some massive improvements in user experience and usability, and what this does is lower training costs, improves productivity and provides business flexibility. We are seeing a significant movement to improve usability to meet enterprise principles such as a richer user experience -- role-based scenarios across barriers, usability paradigms -- so whether it's desktop, mobility, kiosk or device, we're seeing those experiences carry over. We're also seeing business process orientation. This is support for end-to-end business processes across these usability paradigms, and in some cases they're tying training to some of these business processes so you can do real-time training while people learn on the job. Third is configurable change: designing with flexible models and rules instead of customizations. This means the business person can make a change; you don't need a developer to come in and configure something that can be done at a process or meta level. Fourth is actionable insight. While upgrading, we're seeing a lot of incorporation of key information to roles so people can make decisions at the lowest level and in the context of business processes and the user's role. Fifth of all is collaboration. We're looking at how people provide secure, private interactions and open and innovative connections with stakeholders.

Then there's intelligence response. In terms of usability, it's responding to contextual models and business events and the ability to pool information in areas that make sense and set thresholds. The last piece that's important is hybrid deployment, which means being able to support different models of delivering that software, whether it's on-premise, hosted, instance virtualization, multi-tenant SaaS or even cloud-based business process outsources. If you check out my blog at http://blog.softwareinsider.org, you can see highlights from various vendors. We've captured some of the elements of this new user interface (UI), which is really powerful with many great paradigms and definitely an improvement in terms of what we've seen in terms of boring, staid ERP UI and user experiences in the past.
SearchManufacturingERP.com: We hear stories about ERP implementations running horribly over schedule and over budget. Is there a way to guarantee that won't happen to your deployment?

Wang: There's a three-legged stool required for success. First, clients need to be realistic about their business requirements and they've got to keep within scope -- they can't keep changing the requirements. Secondly, the vendor needs to honest about what is supported out of the box. You've got to have a good discussion and think about the demo scenarios that are "vanilla." And third, the systems integrators need to guide the clients to make the most cost-effective decisions and keep them in scope. All three are to be commended for success and blamed for failure.

So when you see these large ERP projects -- "$50 million wasted," or "50% of all ERP projects fail" -- a lot of it comes back to making sure you have good design and you understand the objectives. What I say is, begin with the end in mind. What do people want? Think about the reports that are important and tie them back to those business processes. Make sure that they fall back to the right users, so that the data is captured correctly the first time and you design the product to be used correctly. This is really about access to information and being able to make informed decisions or automated transactions, which means reducing the steps in a business process.

SearchManufacturingERP.com: Can you offer any tips for saving money during the ERP selection process?

Wang: This is an area we've spent a lot of time with; during my time at Forrester, I must have done a thousand of these kinds of spender selection and contract negotiations. They key thing is to engage with more than two vendors and focus the selection on business processes and use case demos. Unless you're a public sector entity, throw out the request for proposal (RFP); it's actually not very useful. We don't know many vendors who come back and say "Oh yeah, we don't do that." The fact is everybody claims to do something. Not that they're lying, but it's either in future plans or future products.

The best thing to do is to set realistic expectations with the vendors and the internal selection team. Get these demos going and see what's possible with the software. Work
with a third-party advisor who's got the main expertise and can guide you on both technology adoption and contract strategy. That way, you can reduce the time it takes to do these vendor selections. We've seen things done as quickly as a month, where people build use case scenarios, they bring the team in for demos, they run through the rigors of the demo and they really go out and build something. This is all part of building a business case.

About the expert: Ray Wang is the author of the enterprise software blog "A Software Insider's Point of View". The blog focuses on enterprise apps strategy, vendor selection, software contract negotiations, and emerging business and technology trends. As an enterprise strategist, Ray focuses on bridging the gap between today’s enterprise landscape with an emerging class of enterprise business solutions adopting the spirit of social technologies and Enterprise 2.0 concepts. Research topics often include ERP, CRM, project-based solutions, order management, master data management (MDM) and Software as a Service (SaaS).
Expert advice for the ERP software selection process

By Panorama Consulting Group, SearchManufacturingERP.com Expert Contributors

Most companies that are evaluating potential ERP solutions confine themselves to tier I vendors. If you have a small to midsized business, there are countless other options. For a large company, there are dozens of viable options that can deal with complex businesses and scale for growth.

Here at Panorama Consulting Group, we encourage our clients to go through the ERP selection process with their "eyes wide open." When our company embarks on a software selection project with clients, we start with more than 80 different ERP packages. Most are offerings from established companies with established client bases. Many can deal with complex requirements, such as product configuration, product development management, engineering change orders, project accounting, etc. The only difference is that they don't receive the publicity and marketing exposure that the larger guys have. Based on our experience, they are often a better fit, more flexible, and less risky than typical tier I software options.

There are plenty of viable alternatives to the household ERP names. Many of these companies are well established, with international offices, international customers, and user counts ranging from 10 to 1,000s. And many of their offerings will cost much less to purchase and implement than a tier I option.

In addition, these smaller vendors often provide more functional specialization and industry focus than traditional ERP options. A complex, engineer-to-order type of discrete manufacturer is not likely to want a package that also tries to deal with the processes for high-volume, make-to-stock manufacturing. Instead, you should consider a solution that handles your type of business very well rather than one that tries to be "all things to all people."
SaaS ERP vs. on-premise ERP software: Six key differentiators

By Panorama Consulting Group, SearchManufacturingERP.com Expert Contributors

In uncertain economic conditions, we believe that companies will redefine the meaning of ERP and how they plan to deploy it. Today, the terms "Software as a Service" and "on-demand" describe software functionality as delivered over the Internet from a single application instance that is shared across all users. Software as a Service (SaaS) and open source are likely to appeal to some companies as potential lower-cost and lower-risk alternatives to traditional ERP. However, there are risks that need to be considered along with these two types of ERP offerings.

The beauty of modern ERP packages is that you have options to choose from during your ERP software selection. You can either deploy a solution by hosting it internally on your own servers (traditional ERP), or if you would rather not deal with the software, you can have it hosted somewhere else (SaaS). In the process of ERP selection, though, you should be aware of six key variables that will ultimately factor into the decision that is right for you:

1. **Simplicity.** In general, SaaS is simpler to deploy from a technical perspective. Because you don't need to purchase additional servers or physically install the software yourself -- you can simply get started with a basic Internet connection -- it can be an easy and quick means of deploying the software. On the other hand, the high level of technical ease may create additional business complexities that you may not otherwise experience with traditional ERP (see #2 below).

2. **Flexibility.** Because traditional ERP is installed on your servers and you actually own the software, you can do with it as you please. You may decide to customize it, integrate it to other software, etc. Although any ERP software will allow you to configure and set up the software as you like, SaaS is generally less flexible than traditional ERP in that you can't completely customize or rewrite the software. Besides, SaaS vendors are more likely to provide only one version, whether you need the upgrade functions or not, and since the software is delivered over the Web, you have no choice but to accept them. Conversely,
since SaaS can't be customized, it reduces some of the technical difficulties associated with changing the software.

3. **Control.** Because of #2 above, many companies find that they don't have control over SaaS software as they would like, relative to traditional ERP. This is especially true of midsized or large companies with well-defined business processes that cannot be changed to fit the software. Small companies can generally adapt their business processes to the software more easily than large organizations can. Besides, SaaS effectively creates constraints on supplying complex functionality.

4. **Accessibility.** SaaS uses the Internet to access systems once deployed and maintained off-premises. Since SaaS is entirely accessed through the Web, you are in "a world of hurt" if the Internet goes down. Alternatively, traditional ERP does not require Internet reliability, provided your users are accessing the software from inside your company's network.

5. **Cost.** In general, SaaS can be deployed at a much lower initial cost and lower total cost of ownership; companies can avoid costly licenses, complex hardware, software infrastructure and no technology maintain needed. This type of cost-effectiveness can be attractive to smaller businesses, but the ongoing annual payment or monthly fees can be higher for SaaS because you're paying to use the software on a subscription basis. Much like leasing vs. buying a car, your payment never goes away as long as you're using the software. It can become costly as you grow and add employees to the system.

6. **Integration.** Companies that have implemented traditional ERP typically have applications that run on the same platform. They have avoided tough integration issues and improved visibility into operations. Integration is a major issue for SaaS companies, which need to provide on-premise integration for their customers to integrate cloud applications with existing legacy applications. A company with SaaS will be left trying to integrate hosted software from a variety of vendors using middleware from yet another vendor.

At a time when industries and economies are decreasing their growth forecasts into single digits, IDC has predicted that SaaS growth will be more than 40% in the current year. SaaS offers "right-sized, zero-capex alternatives to on-premise applications" and easy-to-use subscription services, which are attractive points to companies. This is true especially in this
harsh economy. Clearly, there are tradeoffs between the two options. These six factors should be thoroughly evaluated as part of any effective ERP software selection project.
Seven ERP software implementation success factors

By Panorama Consulting Group, SearchManufacturingERP.com Expert Contributors

Choosing the right software is the most important consideration in any ERP project. A company that chooses software that's not a good fit for its business or requires significant customization to support key requirements is more likely to overshoot its implementation budget. A diligent ERP software selection process minimizes the risk of choosing a solution that is a bad match for your situation.

Simply asking "yes" or "no" questions about software functionality, as is common in many RFPs, can be misleading. Different packages handle certain functionality with varying degrees of success. Companies should define business requirements as part of their ERP software selection process – and would be well-advised to define their desired business processes so evaluation teams can consider potential ERP software packages in the context of company workflows.

The world of ERP is tainted by horror stories of projects gone wrong. Companies such as Shane Co. have had widely publicized complaints about ERP software vendors because of a failed implementation. In some extreme cases, these companies sue because they couldn't ship product or their entire business shut down because the software did not work correctly.

So how does one increase the likelihood of ERP success and the realization of ERP benefits? Many manufacturers assume that the ERP software they purchase determines project success or failure. In reality, 95% of a project's success or failure is in the hands of the company or team implementing the software, not the software vendor.

Here are the seven ERP implementation critical success factors that we have seen:

1. **Focus first on business processes and requirements.** Too often, companies get tied up in the technical capabilities or platforms that a particular software application supports. None of this really matters. What does matter is how you want your business operations to
run and what your key business requirements are. Once you have this defined, you can more easily choose the software that fits your unique business needs.

2. **Focus on achieving a healthy ERP ROI (return on investment), including post-implementation performance measurement.** This requires doing more than just developing a high-level business case to get approval from upper management or your board of directors. It also entails establishing key performance measures, setting baselines and targets for those measures, and tracking performance after go-live. This is the only way to truly realize the benefit potential of ERP.

3. **Strong project management and resource commitment.** At the end of the day, your company owns the success or failure of a large ERP project, so you should manage it accordingly. Ensure that you have a strong project manager and your "A-players" from the business to support and participate in the project.

4. **Commitment from company executives.** Any project without support from its top management will fail. Support from a CIO or IT director is not enough. No matter how well-run a project is, problems arise (such as conflicting business needs), so the CEO and your entire C-level staff needs to be on board to deal with some of these.

5. **Plan up front.** An ERP vendor's motive is to close a deal as soon as possible. Yours should be to make sure it gets done right. Too many companies jump into a project without validating the software vendor’s understanding of business requirements or its project plan. The more time you spend ensuring that these things are done right at the beginning of the project, the less time you'll spend fixing problems later on.

6. **Ensure adequate training and change management.** ERP systems involve big change for people, and the system will not do you any good if people do not understand how to use it effectively. Spending time and money on training, change management and job design is crucial to any ERP project.

7. **Make sure you understand why you're implementing ERP.** This may be the most important one. It's easy to see that many big companies are running SAP or Oracle and maybe you should too, but it's harder to consider that maybe you don't need an ERP system
at all. Perhaps process improvement, organizational redesign or targeted best-of-breed technology will meet your business objectives at a lower cost. By understanding your business objectives and what you're trying to accomplish with an ERP system, you will be able to make a more appropriate decision on which route to take. . .which may or may not involve ERP.

It is important to understand exactly what you are as an organization now and what you want to be in the future. This includes understanding your strengths, weaknesses and core competencies, as well as the areas you want to improve. Making these decisions in the midst of an ERP implementation can be a rushed process, and making key strategic decisions like these in a sloppy fashion will create significant confusion down the road.

The key takeaway is this: ERP cannot be implemented successfully without clear requirements, which are critical to ERP success. By the same token, clear requirements cannot be defined until business processes are well-defined. And business processes cannot be defined until organizations establish a clear strategic direction. Organizations must take these areas into consideration during their ERP assessment and software selection processes.
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Tips for a Pain Free ERP Implementation

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