

# A better way of evaluating ERP

Building the business case for enterprise transformation.

White paper  
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# Re-thinking the way we evaluate ERP



Selecting an Enterprise Resource Planning (ERP) solution is a major undertaking for any organisation. Many senior executives are battle-scarred from previous adventures with ERP implementations, not all of which have lived up to their original expectations or aligned with a vendor's promises.

Enterprises today expect vendors to provide a vision of realistic ERP outcomes, stripped of hyperbole.

Meanwhile the advent of the internet and cloud computing has fundamentally changed the way that ERP can be architected and delivered. ERP-as-a-service means that customers can subscribe and use the solution without the overheads of heavy capital expenditure. They also free themselves from the burden of having to maintain or upgrade hardware, infrastructure and software as this is handled by the vendor.

Forward thinking vendors are now focussed on ERP solutions that deliver outcomes for the business rather than simply investing in longer feature lists to try to outrun competitors' systems.

This paper provides a framework for evaluating modern ERP that extends beyond a checklist of features and functions, into the more useful and mature territory of ensuring ERP impact.

# A brief history of ERP

ERP is a common acronym in IT and business today, but to understand what Enterprise Resource Planning promises, we need to go back to the 1960s. In 1964, as a response to the Toyota Manufacturing Program – the precursor to modern LEAN techniques – Joseph Orlicky developed Material Requirements Planning (MRP). The first company to use MRP was Black & Decker in 1964, with Dick Alban as project leader.

Orlicky's 1975 book *Material Requirements Planning* is subtitled *The New Way of Life in Production and Inventory Management*. By 1975, MRP was implemented in 700 companies. This number had grown to about 8,000 by 1981.

During the 1980s, largely driven by the rapid expansion in computing technology, MRP – traditionally a mainframe or paper-and-calculator driven function of supply chain practitioners – moved into the world of spreadsheets. What used to take hours and days to calculate and re-calculate every time sales orders, purchase orders or inventory changed, was reduced to shorter timeframes.

However it still relied on small and independent calculations that were isolated in silos.

The advent of more affordable client server computing saw these calculations transformed into the basis of what became known as MRP II (mostly driven by work by Oliver Wight) – or Manufacturing Resource Planning. This brought together the modular, previously disconnected operational areas of inventory, purchasing, sales and manufacturing in a combined application which then used all of these elements to provide an overall planning function.

But it still did not connect these elements to the financial and other operational systems of an organisation.

That was left to a new class of application – Enterprise Resource Planning. ERP brought together all aspects of an organisation's IT systems into a single IT application. On the basis that one integrated system is better than multiple systems requiring complex integrations and significant maintenance, a single unified solution made sense.

However, ERP deployments have been rife with customisation as organisations attempted to fit it around existing business practices. This meant that upgrading to new versions became very expensive or alternatively, not commercially viable, leaving users frustrated and incapable of taking advantage of developments in technology. That in turn stymied organisations' ability to compete with more agile competitors who were quick to react to the shifts in globalisation, economic events and technology advances.

It's time for a different approach.

# Selecting the right ERP



Over the last 30 years a process for the evaluation of software has been derived which is based around the constraints of traditional technology, aided by consulting organisations which provided these evaluation services in an advisory or risk management role.

This has prompted the rise of the “search and select” organisation and the Request for Information/Request for Proposal RFI/RFP process. A “tick the box” mentality endemic to this approach has bloated RFIs and RFPs with long lists of features, functions and technical requirement. The implication was that the vendor which ticked most boxes was the right selection for the business.

This process sought to address several factors:

- Functional Compliance;
- Technical Compliance;
- Risk Mitigation; and
- Commercial Compliance.

Unwary enterprises could be sold on the benefits of all-encompassing ERP that on paper had all the bells and whistles but was practically unsuited to the organisation when measured against outcomes. How many times have we heard the lament after an ERP implementation “I have to use Excel to do reporting”, “It’s not user friendly”, “It’s clunky”; “We had to customise it”; and “We needed to get another application to do that.”

# Tick-a-box gone mad

An aged care provider wanted to implement an ERP in order to improve its procurement process to drive efficiencies in the supply chain and to be able to negotiate better volume related purchasing, and improve margins. It followed the classic process: RFI, RFP, third party advisor, multiple demonstrations, shortlist and finally selection. The third party "search and select" advisor used an off-the-shelf template, bought from an online source, and sent it to four vendors in its entirety for response – 4,000 excel spreadsheet lines of questions for vendors to respond to.

The advisor had not even bothered to excise questions pertinent only to manufacturing, distribution, heavy asset maintenance – all irrelevant to an aged care provider. The third party acted as a gatekeeper to the client and claimed this approach gave it "a view of capability for the future." Vendors were unable to get clear visibility of what the aged care provider really needed, severely limiting their ability to structure a proper solution.

In a separate 665-line long RFP, vendors were asked if their system could perform a series of tasks (see table). Leading vendors would claim to be able to tackle all of them – so how does this shopping list of functions help identify the best solution?

Must	Functional	Ability to make one-off invoice payment via any of the payment methods
Must	Functional	Ability to make batch payment via any of the payment methods
Must	Functional	Ability to issue a single payment covering multiple invoices
Must	Functional	Ability to authorise payments in accordance to authorisation workflow and business rules
Must	Functional	Ability to select payments method - BPAY , Direct Bank Transfer, Payments File download, Cheque
Must	Functional	Ability to print cheques
Must	Functional	Ability to make a weekly cheque payment run
Must	Functional	Ability to cancel cheques, if required
Must	Functional	Ability to select payments to be made from approved, unpaid invoices.
Must	Functional	Ability to run Accounts Payable aging reports showing list of payments to be made in a payment run
Must	Functional	Ability to hold unauthorised payments for further investigation, specifying the reason for non-payment

# A better approach to ERP evaluation

The better approach to evaluating ERPs is to take an outcomes-based approach that links the organisational outcomes to the selection process to ensure the best chance of success.

This demands a change in the way that we measure a successful implementation. If I looked through the past 10–20 RFI/RFP based opportunities that I have worked on, the scoring criteria for the RFP would look something along the lines of the following, based out of 100.

Functional Fit	30
Technology Fit	20
Vendor Reference	10
Commercial (Price)	40

However, these measures have never been tied to the organisational outcomes i.e., the benefits that an organisation expects to achieve because of the implementation.

Since 90% of ERP solutions in the Tier 1 and 2 space have a functional footprint that will cover the requirements of most organisations horizontally, i.e., it will tick the boxes of most RFI/RFP questions, a new model of selection is needed. Firstly, let's have a look at the effort required to select an ERP based on the classical methodology in the table below.

This classical process has potentially little alignment to the outcomes required, optimistically takes a year to get only to a decision and imposes significant cost. Note as well that if the organisation decides to run the process itself, the timeframe will extend significantly as organisations seldom backfill the roles of the people running the evaluation process.

Step	Who	Time Frame	Focus
Select Evaluation Partner Executives	Management	1 Month	Have a methodology for RFP process and in selecting ERP
Requirements gathering	Evaluation Partner	3–6 Months	Functional and technical requirements
Build RFP	Evaluation Partner	1 Month	Comprehensive list of above plus commercial construct
Invite Vendors to respond	Evaluation Partner	1 Month	Completion of RFP by timeframe
Vendors Respond	Vendors	1 Month	Completion
Review Responses	Evaluation Partner, Management	1 Month	Review responses and rate
Shortlisted Vendor Presentations	Evaluation Partner, Management	1 Month	Demonstrations of shortlisted solutions plus follow up
Preferred Vendor	Evaluation Partner, Executives Management	1 Month	Commercial discussions, Negotiation and Solution confirmation



# Engage the business



A large government department went through all of the required government procurement process including – RFI and RFP - and spent a considerable amount of time implementing. There was little satisfaction at the end. A “project team” was formed which did the implementation, but remained separate from the business. The business only got its first view when end user training was done, with consequent lack of ownership, finger pointing and lack of accountability.

Meanwhile the lack of focus on business benefits meant that while the system is working and transactionally can do what is needed, there is little real benefit for business stakeholders.

# Business case first

A more meaningful approach is to first develop the business case for the ERP. Why do you want to do it, and what do you want it to achieve? This needs to be expressed as quantifiable business benefits - i.e., revenue increase, efficiency improvement, cost reduction. Delays often occur in the process of an ERP selection when the business case is left to the end – after the vendor and solution have been selected. The business case is then built “in reverse” justifying the decision, instead of being used to make the decision.

Importantly a business case first approach allows for organisational innovation and process renewal. Instead of shoehorning or customising an ERP into an organisation, the business case sets out what needs to be done – not how to do it.

In my experience of almost 20 years as an IT consultant, the core processes required for standard accounting, and supply chain domains are adequately covered in most ERPs.

Avoiding ERP customisation, even if that means some reforms to business processes, speeds the time to benefit and de-risks the ERP implementation by protecting against costly upgrades

A foundation philosophy of this approach is to adopt standard process unless there is a business case with return on investment for doing so.

This does demand a higher emphasis on change management and requires tools to help staff adapt to the change.

On occasion there will be truly unique business processes that are central to an organisation's success – but it is useful to carefully test, often with the assistance of fresh eyes from a third party, that assumption of “uniqueness”.

If a unique process is identified (not unique fields and functions which are often mistaken for unique process) these should be listed and the outcomes related to these be expressed as reports required, key performance indicators, customer or vendor deliverables.

Then debate whether the unique processes are truly unique or self-inflicted, i.e., do we do these because we always have but there is not a practical outcome? Then, calculate the benefit attributable to the business from this process in terms of additional revenue, decreased cost, or improved efficiency. These benefits should be quantified, i.e., if we perform this unique process, then we can provide additional customer visibility to the sales force which means they can spend x hours more in front of clients which means we can expect a 5 % improvement in revenue.

Once this has been done, select the vendors that might address the unique processes which is often possible using a simple internet search. This provides a starting list, which, coupled with filters on technology, implementation capability and customer references should establish a manageable shortlist.

Typically, you would not want to have more than three on a shortlist though in rare cases, one vendor will stand head and shoulders above the rest on these key requirements.

Be prepared to open the business to vendors – too often in the classical scenario we find that the nature of the RFI/RFP process means that vendors are excluded or allowed minimum contact with the customer. In several cases where third party search and select firms have been involved, they act as “gatekeepers” to protect their revenue stream (each hour of consulting is billable revenue) and secondly to retain “control” of the vendor.



## Business case first *continued*

This limits the vendor's ability to fully respond to the customer's real needs, and risks wrong assumptions being made regarding scope and cost.

Instead, open the business for discovery. Once you have set the bounds of the scope, allow vendors time to access current users, managers and executives to get a real understanding of what the business is about and the processes it needs to perform. While this may seem excessive, compare the time taken with that needed to conjure and manage an RFI or RFP.

Secondly, give vendors real data to take away to set up a walk-through workshop of the standard system process in their ERP for the unique business requirements defined above. Have stringent boundaries about the workshop - no customisations, one week to prepare, and defined outcomes. Have the vendors come back and workshop (not just demonstrate) these processes to the business. This allows gaps to be identified (at a high level) but also will give enough visibility of where configuration is needed or whether this needs to be customised. This allows both customer and vendor to be able to quantify the impact of this from a time and cost perspective.

Give vendors time to work out how to address any gaps - and return to the business and workshop these. If necessary, allow a limited amount of time to validate non-standard process. Workshop the implementation making sure that the vendor factors in the delivery of the business benefit. It is not enough to base the implementation on configuring the solution, the end goal is achievement of business benefit therefore all activities must be aligned to the goal.

Step	Who	Time Frame	Focus
Build Business Case	Management and Executives	1 Month	Quantifiable benefits of New ERP
Identify Unique Business Processes	Management	1 Month	Processes that are unique or contribute directly to the required business case outcomes
Vendor Workshops	Executives, Management, Key Users	3 Months (1 Month per Vendor)	Workshop the outcomes required for the business case
Preferred Vendor	Executives, Management	1 Month	Commercial discussions, negotiation and solution confirmation

## Business case first *continued*



Lastly, customer references – all vendors will put their best references on the table, again typically these have focussed on feature and function, rather than process and benefit. Instead ask reference customers:

1. What were your key / unique processes and how did you achieve them?
2. Did you define a business case for the project and did you achieve the benefits?
3. How long ago did you implement and have you maintained or improved on those benefits

While this is a short cycle, intensive process, overall the disruption of the business is less, and the "irritation" factor is reduced. Staff do not have to educate third party consultants, then vendors and then potentially vendor partners. Instead, there are short sharp intense bursts of activity which provide a focussed perspective on critical processes.

# Summary

We need a better model to evaluate business applications.

Firstly, understand the benefits that are required.

Next, align the processes required to achieve these benefits, then workshop these processes with a researched shortlist of vendors.

Define the gaps, and the amount of work to achieve these – but only if they are material to achieving the benefits.

Reference clients of the vendor to test their achievement of business benefits, and most importantly, structure the implementation plan around the benefits realisation.

This method aligns the selection process to desired outcomes rather than just performing an orchestrated due diligence with no alignment.

This model allows a shorter cycle evaluation approach and aligns the benefits to the implementation providing a more realistic opportunity for a successful outcome.

# Learn more

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