

A close-up, slightly blurred photograph of a white computer keyboard. Several keys are visible, each featuring a different currency symbol: the Euro symbol (€), the British Pound symbol (£), and the Japanese Yen symbol (¥). The keys are arranged in a grid, and the lighting creates soft shadows, giving a sense of depth. A dark blue rectangular box is overlaid on the center of the image, containing white text.

Improve your ERP-projects!

6 provocative columns
about selecting ERP-systems

Guus Krabbenborg



Guus Krabbenborg (1961) has been active in the world of ERP and CRM for over 20 years, out of which he was an entrepreneur for more than 15 years. He started at Philips, where he held different sales and management positions. After the takeover of Philips' IT-division by Digital Equipment (DEC) he was involved in a management buy-out. For the consecutive 5 years he was co-owner of DBS Business solutions. After his departure from DBS he worked as Commercial Director at Navision Software The Netherlands. Since 2000 Guus has been working as an independent advisor and trainer in TerDege Consultancy. TerDege is an independent enterprise for advising, training and interim management, which is aimed specifically at the national and international market for CRM and ERP software. Furthermore, TerDege is presenter and publicist for the ERP industry. TerDege publishes, amongst other things, TerDege's Newsletter and is a columnist for the business journal Logistiek.

Foreword

Traditionally, the implementation of ERP¹ systems is regarded as a technical affair. With the IT department as the engine of the project and a focus on technology.

Partly because of the standardisation and improved quality of hardware and software, technology is becoming a more and more stable factor. Along with this development, the causes of failure have also shifted from more technological to more human aspects. These human factors prove to be prominent in making the difference between success or failure!

In the past 15 to 20 years, providers and buyers of company software have gained a lot of experience in introducing new systems. And yet more than 75% of all implementations is not delivered within the set limits in terms of time, quality and financial means! To a great extent, this can be blamed on the purely technical approach that is often adopted.

This booklet contains a series of columns presenting practical solutions for common problems on a personal and management level when selecting, contracting, implementing and using ERP and CRM systems. The columns were published in 2006 at www.logistiek.nl. They are written – something that is quite special in the IT sector! – in a language that anyone can understand.

I sincerely hope that these columns inspire you and help you to belong to the successful 25% of implementations!

Guus Krabbenborg

TerDege

Scale size determines ERP offer

Will your current ERP system still be developed and maintained in 5 years? Or will it have sunk into the violent waves of bankruptcies, fusions and takeovers? And do you realize what this means for the information provision within your company?

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According to analyst company IDC, around 12.000 ERP providers are active worldwide. This market is exceptionally fragmented. For example, the top 5 hold 17% of the market. The next 40% is shared by 574 providers, and the lowest 43% contains 11.400 providers struggling in the margin.

The large providers are growing while the smaller ones are shrinking, are taken over or kick the bucket. Furthermore, developers of ERP systems are more and more often becoming distributors of a large ERP provider. This tendency is recognisable from other industries. Take, for example, automobiles. Around 1900, this market had around 1.000 providers in the United States only. Only three are left. The same goes for the airplane industry. In the world of IT the number of operating systems, databases and word processors already shrank to about a handful. ERP will follow.

On a local level the consequences are visible. In the Netherlands, DAF developed cars in the past, but the home market proved too small to get return on all necessary investments: exit DAF.

Airplane builder Fokker did not make it for similar reasons. It is striking that, in the meantime, the Dutch city Born does produce cars, but they only assemble for foreign markets.

Scale size, therefore, is an important determiner of who will still be a provider in three to five years. Sizeable budgets for research & development, international distribution channels, large numbers of customers and strong marketing are good predictors of success. Local ERP providers are under pressure. Is there no more room for niche players? Yes, but only if they focus exclusively on small-scale, vertical markets.

For who is orienting himself on a new ERP system it would be wise to study the continuity of his potential providers well. Nobody is waiting for the package that may be the best fit in terms of functionality, but that will soon cease to exist.



The wish list

A company about to purchase an ERP system first compiles a list of demands and wishes. But the more departments and employees are involved in this process, the higher the selection standards will be. The consequences of this are a system which is too heavy, unnecessary customisation, a longer implementation time span and therefore higher costs. Time for a new approach!

Companies are used to describe their demands and wishes with regard to ERP in a detailed manner. Usually all departments get the chance to supply their share of wishes. These realise that they should exploit this opportunity, because otherwise they will have to wait for years once again. And therefore, they ask for far too much. *“Some prospects want to communicate with the moon via XML”*, says Paul van Abeelen, Managing Director of Isah, characterising this process perfectly.

It is remarkable that end users are allowed to indicate their desires without insight in the cost/gain ratio. Desires that will strongly influence complexity. And without occupying themselves with the consequences of the necessary customisation for the release flexibility. Does it still seem strange that in practice, companies are only using a small part of the available functionality? After all, by the time that this work of art finally is operational, it turns out that the dynamics of the market have changed to such an extent that the selected configuration has already become obsolete.

Recently I visited a gathering of the Dutch Dynamics AX user association. There, the IT-manager of a big member organisation was talking about his selection process. His organisation had decided not to ask the individual departments for their wishes, but to determine the needs on the level of the direction instead. In this way, he was able to work with a clear and concise list, which contained only main points such as integration, flexibility and continuity. And though there was some initial resistance from the end users, the choice was made quickly, almost no customisation was needed and the implementation was smooth.

If you are down-to-earth while compiling your list of demands and wishes, this will become the first victory for your new ERP system!



Shorten your shortlist!

Companies are looking for short-term ROI in ERP systems. Often, nevertheless, unnecessarily many costs are made during the selection phase. This puts pressure on a fast ROI even before the actual implementation has started.

Selecting ERP is often purely a matter of emotion, even though as a buyer you like to present things otherwise. Many companies work from a longlist towards a shortlist to make the final choice based on the latter. A relevant question is what you require from the providers, phase by phase. And how much time and energy you yourself will dedicate to it.

Presenting all the providers on the longlist with RFI's with more than a thousand (!) questions is asking too much. Especially if you decide afterwards that some providers can be erased from the list "because they lack references in your sector". You could have figured this out with less effort.

Visiting six providers for a full-day workshop is not logical either. Especially if you invite your complete project group or working group for the occasion. Only to delete candidates "because their user interface looks a bit chaotic" later. Or having your current provider participate "for the sake of politeness" while it is clear from the beginning that he doesn't stand a chance!

All the above regardless of the efforts that you require from your ERP providers; think of how much time and energy you require from them? Do you include all those costs in your business case? Political play and keeping yourself covered are prominent driving forces during the selection phase. In order to prevent possible reproaches you choose to allow the providers about whom you had your doubts to participate as well. But who actually profits from such an approach?

First, at a management level, decide upon the five most important selection criteria. Use these criteria to filter out two providers and only then start going into depth. In this way you save a lot of time and energy and you are keeping your selection costs under control. Moreover, this approach displays more respect towards your providers.



Are you asking the right questions?

More and more research indicates: the determining factors for successful ERP projects are about people and organisations and not about technology. Surprisingly, questionnaires and RFI's are still mainly about functionality and features. Time for new insights.



The conviction that an ERP system is a tool of which companies can take advantage is spreading. Whether any success is actually achieved, however, depends mainly on the user organisation. How else can one explain that the one company goes bankrupt (partially) because of ERP while the other is successful (partially) because of the same ERP system?

Pro-active support from the management of the user organisation turns out to be the critical factor again and again. Managements that turn their backs on the project as soon as the negotiations about the price have ended steadily score low. The attitude towards change is also increasingly important. Next to the level of quality of, amongst others, the key users and the internal project leader.

And still aspects pertaining to the quality of people and organisation and their willingness to change are barely addressed in RFI's. And if they are, they will surely deal with the quality of the provider. Important, for sure,

but being critical of your own people is just as important! Many providers lack the courage to deal with this subject timely. They will only bring it up once the project has failed. Once they are around the table with an angry customer, flanked on the one side by his legal advisor and on the other by a pile of unpaid invoices. But by then, the damage has already been done!

Providers can help you map out risks concerning the quality of your own personnel. Moreover, they know about possibilities for solutions, such as hiring an experienced project leader. Or focusing the attention from the management in a project board. The only thing you need to do for this is asking the right questions in your RFI, which will make the topic less sensitive and easier to address.

Admitted, it is a slightly different category of questions than those you are probably used to asking. But paying attention to their relevance for the success of your next project will certainly be worthwhile!

Who's fooling who?

Questionnaires and Requests for Information (RFI's) play a prominent role in selection processes for new ERP systems. High scores are necessary for providers to keep being considered. But often room for nuance is lacking. The customer is thinking one-dimensionally and only wants to hear 'yes'. But who's fooling who?

Many providers of ERP systems find themselves facing a dilemma. Who fills out an RFI honestly runs the risk of being eliminated at an early stage. Because the competition can easily fill in 'yes' everywhere, even if in fact the answer should be 'no'. These optimists, however, will undoubtedly be exposed during implementation. It is the classical opposition between the *overambitious* and the *precise*.

As a future buyer you can ask yourself what the value of such an inquiry actually is. Choosing for the provider with the highest score seems logical and obviously has a good feeling to it. But if it turns out that your provider has practiced a little 'overselling' during the implementation, you are too late. ERP licenses do not have a deposit. And there you are: Contractually bound for a middle-long term to a provider who "hasn't completely understood" you during the earliest stage already.

Therefore, when sending out an RFI, always demand that the answers will be part of the contract. And give providers more room for nuance.

Don't just have them choose between 'yes' and 'no', but also allow them to propose a different approach or a refreshing perspective. In this way, you also allow them to show their skills as a sparring partner.

In the end, a honest provider is more valuable to you than a provider who simply answers all your questions with 'yes' without thinking of the consequences.



A Capital Waste!

Software, in my view, is the only capital good in the world that does not have a residual value. Did you ever see an advertisement on e-Bay stating: "SAP software for sale because overcomplete, sharply priced"?

Replacing company software is the purest form of wasting capital.

Every used capital good has a certain value on the second hand market. It doesn't matter whether we are talking about a truck, a machine or a building. As a consequence, the purchaser does not have to depreciate the purchased good down to a value of zero, which decreases the annual costs.

Standard software, however, is a different story. You do not buy the system, but only the one-time license of usage. If at any point you decide to cease using it there is no residual value. This is clearly also the case even if you never start using the system. But this does not even present the complete picture, for also implementation and training are connected directly with the software system. If you discard the system, you can also say goodbye to these investments!

Therefore, you would expect that potential buyers of business software pay close attention to the expectation of continuity of system and provider.

And to innovation and future growth. But this is not the case! Even worse: for 5% extra reduction a provider is discarded that has 50% better expectations for continuity. If this cheaper system is already in need of replacement after a small number of years, the question arises whether it was really that cheap.

If you are facing the replacement of your company software, try to minimize the chance of another waste of capital. Ask for clear guarantees of at least 5 years of active maintenance. Do not accept a quotation that lacks an outline of how to grow into subsequent versions of the system. And have yourself be informed about the financial consequences of the transition.

Long-term usage of one and the same system usually forms a solid basis for a positive yield of your investment.

