ERP SOFTWARE **BUYER'S GUIDE**

The complete guide to selecting and purchasing ERP for your business

GUIDE **HIGHLIGHTS**

- A 50-step ERP software selection checklist
- Pricing information from leading ERP vendors
- A template for producing ERP RFP documents

INDEX

The ERP software buyer's guide is a compilation of the key resources and information you will need during your ERP selection project.

INTRODUCTION

Buying ERP is easy. Signing the contract, filling out bank details, it's no different to any large scale enterprise investment. But the confidence you have in your decision depends on months of research and consultation during the selection phase of your project.

With 37% of ERP owners indicating they would have benefited from further research and 43% suggesting the support from their chosen vendor was inadequate, the time and resources invested at the selection phase are perhaps the most valuable investment you will make during your project. From requirements gathering to producing an RFP document, the selection phase in your project builds the foundations for a confident purchase and implementation.

To help you establish and execute a plan for the early stages of your ERP software project, we have compiled a complete buyer's guide with advice on system pricing, RFP documents, and the selection process.

KEY FACTS & FIGURES

2018 ERP Software Market

64%
of ERPs in 2018 were implemented to improve business performance [1]

95%
businesses reported their ERP improved business processes [1]

64%
businesses exceeded their budgets [1]

50%
businesses recouped their costs for implementation within 3 years [1]

61%
of 2018 implementations overran due to an expansion in project scope [1]

USEFUL DEFINITIONS

BRING YOUR OWN DEVICE (BYOD)

A system implemented by businesses which allows employees to use their own devices (mobile, tablet, laptop) in the workplace. These devices can be setup with self-service access portals to business systems including ERP.

EXECUTIVE SPONSOR

The most senior member of the project team, the executive sponsor is usually identified from C-level. Their role includes communicating the project to the board.

LEGACY SYSTEM

Legacy systems, refer in general, to computer programs written specifically for a single organizational function, before the days of integrated software or ERP systems. Legacy systems tend to be highly customized and somewhat difficult to maintain.

NATIVE MOBILE APPLICATION

Unlike a mobile web application, a native application is coded for a specific mobile operating system. Many ERP vendors offer mobile ERP access via a web browser, but few offer native applications.

PERPETUAL LICENSE

A software license which allows the customer to use the purchased ERP system indefinitely.

PROCESS SCHEMATICS

A graphical representation of business processes and workflows. These can be used to map ERP requirements and identify bottlenecks or workarounds in existing systems.

REQUEST FOR INFORMATION (RFI)

An RFI document often precedes an RFP or RFQ and requests further information from a long list of ERP vendors. This information is then used to narrow down vendor options during the production of a final shortlist.

REQUEST FOR PROPOSAL (RFP)

An ERP RFP document is a formal invitation for a vendor to participate in a bidding process when a company intends to purchase ERP software. Vendors are expected to submit a formal business proposal for fulfilling the stated requirements, including price.

REQUEST FOR QUOTE (RFQ)

An RFQ is similar to an RFP, but used for less complicated purchasing situations. It does not require any supporting discussion or alternative strategies; it is a straightforward request for the price required to deliver a specific product or service.

RETURN ON INVESTMENT (ROI)

A standard financial measurement intended to assess the profitability effectiveness of investments, calculated - in general terms - by dividing the expected return (profit, cost savings, etc.) by the financial outlay.

SOFTWARE AS A SERVICE (SAAS)

An ERP license and delivery model characterized by a subscription license and central hosting.

TOTAL COST OF OWNERSHIP (TCO)

Total cost of ownership is a phrase that captures the idea that there are other costs in a software acquisition besides the initial purchase price. Annual maintenance fees, tiered licensing fees, expected upgrade frequencies, special consulting services, and hardware costs are a few - but not all - of the additional costs that accumulate over the life of a software purchase.

SELECTION CHECKLIST

To help you schedule your selection project, this 50 step checklist is divided into seven sections. You can also download the checklist as a spreadsheet.

7
Selection team

8
Requirements gathering

9
System specification

10
Vendor services

11
ROI forecast

12
Vendor shortlisting

13
Vendor selection

Download as spreadsheet

SELECTION TEAM

Without a carefully chosen and balanced team, your ERP selection project will suffer from individual and departmental bias.

SELECTION TEAM TASKS

1	☐	Select an ERP selection project lead
2	☐	Assemble an ERP selection team including key stakeholders from each departmental group
3	☐	Randomly select a cross section of each department to form user groups
4	☐	Identify external requirements for consulting expertise
5	☐	Define scope and timeline for external consultancy resources
6	☐	Develop a selection consultant shortlist and gather references from previous projects for each
7	☐	Identify a C-Level executive sponsor for your project

REQUIREMENTS GATHERING

"Cart before horse" comes to mind. Many ERP selection projects fail due to unclear or incomplete requirements documentation.

REQUIREMENTS GATHERING TASKS

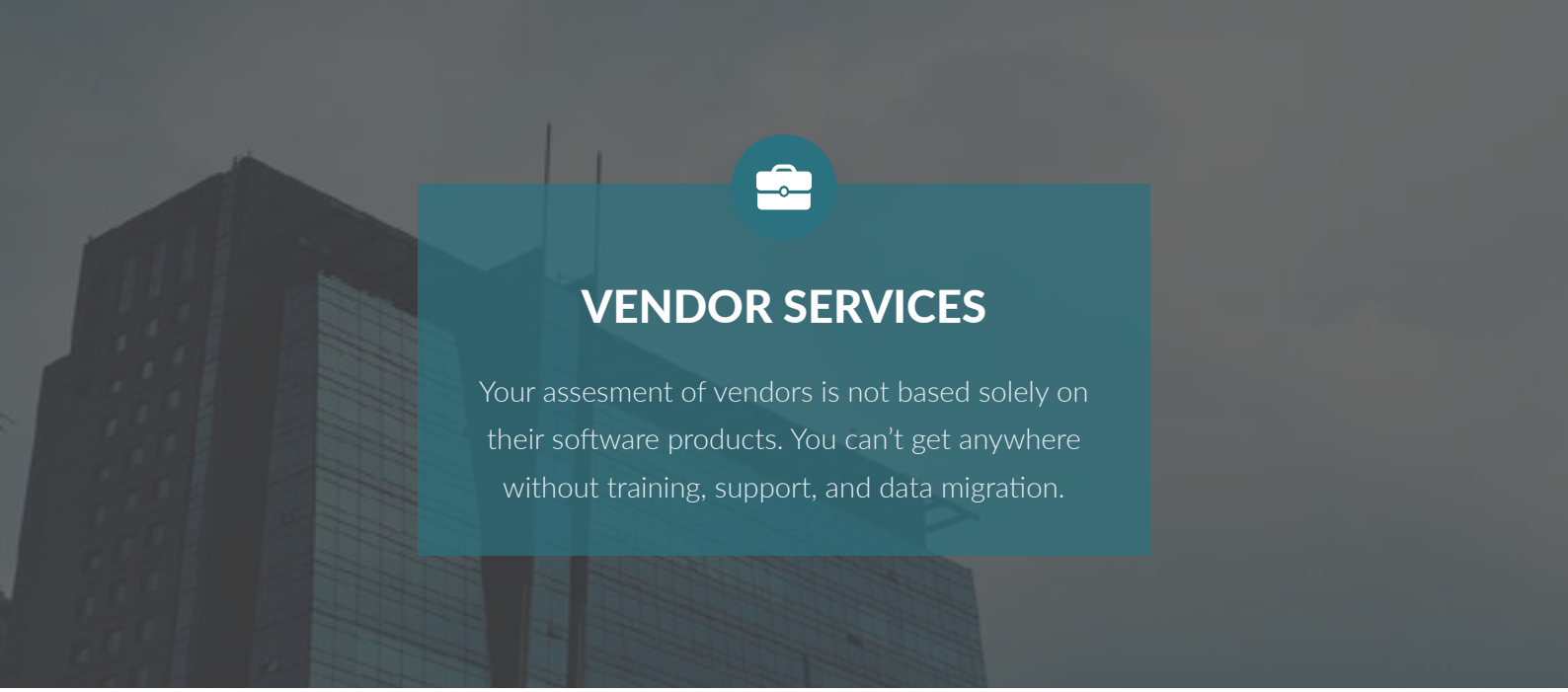
1	☐	Create a map of current business processes to identify bottlenecks in efficiency
2	☐	Identify the shortcomings of existing systems
3	☐	Identify key business challenges you aim to solve with the new ERP system
4	☐	Consult each functional department to discuss business challenges in the context of their processes
5	☐	Gather the requirements of each department to address these business challenges
6	☐	Document requirements for the new system and assign priority values to each
7	☐	Take final requirements to end user groups to gather feedback

SYSTEM SPECIFICATION

Forget the bells and whistles, many ERP selection decisions come down to core hardware and network choices.

SYSTEM SPECIFICATION TASKS

1	☐	Identify the total number of users who will require system access
2	☐	Determine preferred delivery platform (cloud, on-premise, hybrid etc.)
3	☐	Identify mobile access requirements (web-app, native iOS, native Android etc.)
4	☐	Define offline system access requirements
5	☐	Identify language and currency requirements
6	☐	Identify requirements for integration with existing systems
7	☐	Document existing hardware environment
8	☐	Document existing network environment



VENDOR SERVICES

Your assesment of vendors is not based solely on their software products. You can't get anywhere without training, support, and data migration.

		VENDOR SERVICES TASKS
1	☐	Document requirements for support scope and delivery method (phone support, online support etc.)
2	☐	Document requirements for training scope and delivery method (classroom training, on-site training)
3	☐	Document requirements for implementation consultancy
4	☐	Document requirements for external project management
5	☐	Identify critical data sets in your legacy systems
6	☐	Document data migration requirements for these critical data sets
7	☐	Identify external requirements for system and network maintenance

ROI FORECAST

No sign of subjectivity here. Either the investment in an ERP system makes sense, or it doesn't. The hard part is creating an accurate forecast for ROI.

ROI FORECAST TASKS

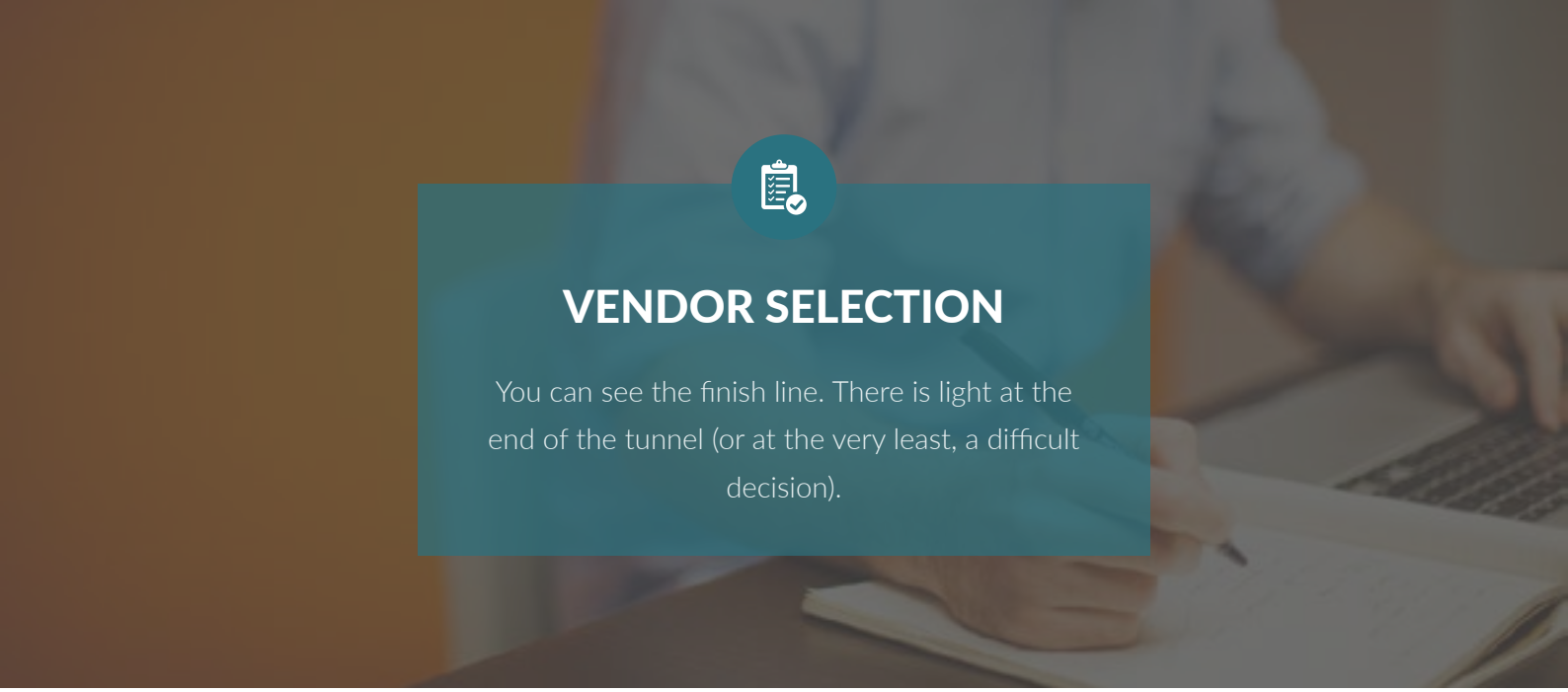
1	☐	Define timeframe for TCO and return calculations
2	☐	Forecast the value of each system requirement within the specified timeframe
3	☐	Forecast costs for the new system within the specified timeframe
4	☐	Work with analysts and finance to produce final ROI forecast figures
5	☐	Compare ROI forecasts for the new ERP with those of other prospective points of investment
6	☐	Report on ROI forecasts to senior management and seek project approval

VENDOR SHORTLISTING

One of the major challenges during ERP selection is creating a shortlist of five or six candidate vendors from a market with 100's of solutions.

VENDOR SHORTLISTING TASKS

1	☐	Research ERP employed by similar companies in your industry
2	☐	Identify ERP solutions specific to your industry
3	☐	Identify market leading solutions which offer some support in your industry
4	☐	Compile initial shortlist of vendors
5	☐	Produce an RFI document and send to shortlisted vendors
6	☐	Narrow shortlist based on RFI responses
7	☐	Compile requirements and business processes in an RFP document
8	☐	Narrow shortlist based on RFP responses to produce final shortlist



VENDOR SELECTION

You can see the finish line. There is light at the end of the tunnel (or at the very least, a difficult decision).

VENDOR SELECTION TASKS

1	☐	Define the scope for your ideal software demonstration
2	☐	Build selection teams to attend software demo including user group members
3	☐	Book demonstrations with each vendor on your final shortlist
4	☐	Seek at least two to three references from each prospective vendor
5	☐	Produce an RFQ document and send to all vendors that provided demos
6	☐	Assemble selection committee to review all RFQ responses
7	☐	Make final selection decision and proceed to contract negotiations

ERP SOFTWARE PRICING

PRICING MODELS

ERP pricing models can offer a daunting challenge whether it's your first system purchase, an active operational upgrade, or a holistic migration from one platform to another. In order to ensure accurate cost calculations, not only do you require a strong comprehension of company scale, but you must also understand the intricacies of the multitude of ERP pricing plans.

For example, if you are a small business requiring extensive IT processing capacity, system cost and capability must be considered to be highly-critical decision elements, as any move you make can have a direct impact on daily financial operations. On the other hand, if you are a technology manager at a mid- or large-scale company, while any ERP cost estimation should always be considered carefully, the sheer size of enterprise resources tend to insulate less-than-efficient cost decision-making, even though hidden impacts may create larger problems downstream.

In a typical ERP purchase there are two generally accepted models to choose from: perpetual licensing, often associated with on-premise systems, and the Software as a Service model (SaaS), often associated with cloud-based systems. Each model offers advantages and disadvantages, however, a consideration of enterprise scale should again apply at the outset of any business deliberation between the two. Bear in mind there are also hybridized ERP price models which borrow elements of both models discussed below.

PERPETUAL LICENSE PRICING

Simply put, a perpetual license will allow you to use the licensed ERP system indefinitely. This model has been well established for many years as it allows a company to host the software on their own servers and provides them a well-defined initial cost of ownership.

Despite historical popularity, perpetual licenses are often a point of friction for small businesses where the upfront costs and IT infrastructure requirements make a SaaS deployment the more attractive pricing model. On the other hand, large businesses with established IT infrastructures will often find that a perpetual license offers a lower total cost of ownership (TCO) in the long-term.

Aside from the larger upfront cost, one of the primary disadvantages of this ERP pricing model is its limitation on growth. Not only will a business have to add more infrastructure to keep up with their current system requirements, but they may also struggle to make a required system change due to high capital outlay at the start of the project.

SaaS SUBSCRIPTION

An increasingly popular choice for small businesses, SaaS subscription pricing for ERP provides the system on an "on-demand" basis without lengthy contracts or large upfront costs. The cost of the subscription is often linked to the number of users for a system or the volume of transactions.

As mentioned above, SaaS subscription is considered to be a good fit for growing businesses due to the flexibility present in many ERP pricing plans. This flexibility may come in the form of automated system upgrades, or a user plan that can be adapted on a monthly basis allowing the growing business to manage system costs efficiently as they expand.

On the downside, speed of growth can breed complexity that can lead to resource cost spikes driven by rapid and consequent growth. The impact is simple, while the system itself may be efficiently paid for, managing any new activity typically requires more well-trained users performing more tasks on the system.

To conclude, the differences between each ERP pricing model are primarily driven by scale, followed by costs associated with outlay for licensing and hardware or infrastructure development. Downstream of the initial implementation costs many other internal IT and ERP management costs come into play as well, but these will be considered when we discuss ERP TCO.

ERP PRICE LIST

Pricing information from Q3 2018.
Check back for regular updates.

VENDOR	PRODUCT	MODEL	COST	SOURCE
Aquilon Software	Aquilon ERP	Monthly Subscription	From $1,300 / user	
BizAutomation ERP	BizAutomation Cloud ERP	Monthly Subscription	$79.95 / user	
Blue Link Associates Limited	Blue Link Elite	Monthly Subscription	From $500	
Cetec	Cetec ERP	Monthly Subscription	$40 / user	
DBA Manufacturing	DBA Manufacturing	Annual Subscription	$599 / user *minimum 5 users	
Ecount	Ecount ERP	Monthly Subscription	Fom $55 / unlimted users	
Epicor Software Corporation	Epicor	Monthly Subscription	$175 / user*	
EquipSoft ERP	Equipsoft ERP Rapid Edition	Monthly Subscription	$300 / user *Minimum 10 users	

ERPNext	ERPNext	Annual Subscription	From $150 *Minimum 3 users	
Exact	Exact Max ERP	Monthly Subscription	From $319	
HansaWorld ERP	Standard Accounts	Monthly Subscription	From £7.99 per module	
Horizon Software	MRP Plus Small Business Edition	Perpetual License*	From $750 between 2-5 users	
iDempiere	iDempiere	Free*	Free**	
Ilscipio	Scipio ERP	Free*	From free* *Professional starting at $5000 annually	
Info-Power International	ABW	Perpetual License	$1000 one time fee	
Jonar	Paragon ERP	Monthly Subscription	From $150 / user *Up to 25 users	
JustFoodERP	Foundation Edition	Monthly Subscription	$300 / user ($95,000 implementation)	
JustFoodERP	Professional Edition	Monthly Subscription	$300 / user ($125,000 implementation)	
JustFoodERP	Enterprise Edition	Monthly Subscription	$300 / user ($305,000 implementation)	
Kolibrys	Kolibrys ERP	Annual Subscription	From €7,500	
KPI	KPI ERP	Monthly Subscription	From $380 *For 5 users	
Marello	Marello	Free*	Free*	

Microsoft	Dynamics 365 for Operations	Monthly Subscription	£143 / user	
Miles	Business by Miles	Monthly Subscription	$299 + $8 / user	
My Office Apps	Kechie	Monthly Subscription	From $99 / user*	
Odoo	Odoo Enterprise	Monthly Subscription	From €22.50 / user	
Odoo	Odoo Online	Monthly Subscription	From €22.50 / user	
Open Systems ERP	Traverse	Monthly Subscription	From $175 / user	
OpenBravo	OpenBravo Business Suite	Annual Subscription	From free*	
OpenPro	OpenPro ERP	Perpetual License	$1000 / user	
Parity Corporation	Parity Factory	Perpertual License	From $40,000	
ProcessPro	ProcessPro Premier	Annual Subscription	$3,600 / user*	
Rootstock Software	Rootstock ERP	Monthly Subscription	$175 / user*	
SAP ERP	SAP S/4HANA	Monthly Subscription	From $220 / user	
Valuechain	DNA	Monthly Subscription	£50 / user	

Vicinity Manufacturing ERP	Vicinity Software	Perpetual License	$6000	
Vienna Advantage	Vienna Advantage ERP	Not Available	Free*	
Visionet	HauteLogic	Monthly Subscription	From $190	
xTuple	xTuple Distribution	Monthly Subscription	$90 / user	
xTuple	xTuple Manufacturing	Monthly Subscription	$130 / user	
xTuple	xTuple	Monthly Subscription	$150 / user	

* Price displayed is an average cost per user, actual prices may vary.

** There is no such thing as a free lunch (or free ERP in many cases). Be sure to read our explanation of free ERP on page 21.

HOW THIS DATA WAS GATHERED

Pricing information for ERP software is notoriously difficult to pinpoint as the costs involved can display extensive variety from project to project . The information shown above was gathered from a variety of public sources including, where possible, the vendor's pricing documentation (click on the source icon next to each product for more information). This data should be used as a rough estimate of average ERP prices and does not constitute an official price quote. Please contact customerteam@erpfocus.com to report pricing changes.

FREE ERP EXPLAINED

In 1966 science fiction writer Robert Heinlein leveraged a 1930's business adage, turning it into the iconic literary acronym TANSTAFL (aka 'There ain't no such thing as a free lunch') and making it a centerpiece of his seminal work entitled 'The Moon Is A Harsh Mistress'. While you may enjoy a discourse on the book another time, our focus here is not the consideration of a work of fiction, but rather how TANSTAFL may, or may not apply in the case of today's free ERP software market.

CAVEATS OF FREE ERP SOFTWARE

From both a research and educational perspectives free ERP systems can be a great way to learn about the operating vagaries of complex software systems; particularly given today's access to cloud-based platforms. In this environment, sophisticated systems can be turned upside down, tinkered with, or blown up entirely, with little negative impact other than the potential of wasting installation time on systems that may offer neither complete documentation, nor direct support. However, in the commercial world, time is money and any ERP technology based on a free pricing model tends to offer a framework for processes at best, or time-engulfing black hole at worst.

Beyond these caveats, free ERP software systems are rarely without a financial cost, since these platforms require the same implementation, configuration and maintenance expenses as any other costed variant. Secondly, open-source or free systems can experience irregular performance results due to an understandable lack of infrastructure investment behind the product. The point here is simple; just because a system is 'free' it doesn't necessarily follow that the product will provide good long term value.

Having said all that, there are some particularly impressive products on the free ERP market, with two of the most popular choices discussed below:

OPENBRAVO ERP

At the mid-level OpenBravo comes to mind as a solid and quite scalable approach to the reduced cost promise of web-based ERP. The system is modular in nature and is available as a free open source option, a mid level system costing $4500 annually, and an entirely fleshed-out enterprise level leveling out at $22k per year.

IDEMPIERE

At the 'big dog' level of free ERP, iDempiere offers a highly-sophisticated code base, clever user interfaces, and deep reporting capabilities. Although the system is open-source and free, to get the most out of the technology you should already have a well-trained IT group ready to handle implementation and configuration, backed up by one or more third-party ERP consultants for support. Depending on the scale of the target enterprise, costs to get the system running efficiently can be as low at $5k, and at the upper end, as much as $250k annually.

ERP VENDOR TIERS EXPLAINED

The tiered classification of enterprise software systems originally emerged in the mid-80's. While the market has largely discarded this fundamental taxonomy, ERP system developers and consultants have continued to favor and utilize the arrangement. Consequently, ERP systems are often still categorized in a three-tier approach which should be considered whenever vetting the scope, complexity, and price of ERP software products.

In many cases modern ERP systems defy easy categorization as they are often defined by deep-dependencies on third-party integrations, along with flexible system scale and functionality. Despite this, you are bound to come across the 'tiered' system at some point during your ERP selection decision. Here is a refresher illustrating just what each tier covers, along with a guide to the general pricing level typically applied in each tier.

TIER 3 ERP VENDORS

This level is typically associated with customers that fall into an annual gross revenue range of $0 - $20 million. At the low end of this spectrum the category is typically classified as being a 'Mom and Pop' enterprise, while at the upper end of the range the term 'small-businesses in transition' is often used. In the case of the former, fully-integrated SaaS ERP systems appear to be most favored primarily due to lower initial purchase and implementation pricing, while at the latter level, hybridized systems, utilizing both on-premise and SaaS platforms, were the norm until recently but are now being supplanted by mid-scale SaaS systems. Frequently these systems offer a fraction of the capabilities of a core ERP system but at a fraction of the price.

TIER 2 ERP VENDORS

This tier is typically favoured by enterprises that fall into an annual gross revenue range of between $20-$250 million. At the low end you will find the more sophisticated hybrid systems, while at the upper end brands such as Plex, Sage, and NetSuite offer advanced SaaS systems. They typically offer space to grow as a basic requisite, and intrinsic processing elements are designed to scale easily over time, with a minimum of additional cost. These systems are often offered alongside a range of other enterprise software products which can expand ERP functionality through integration (with added cost of course).

TIER 1 ERP VENDORS

This level is typically applied to enterprises that exceed an annual gross revenue of $250 million. At the low end of this tier, multiple fully integrated ERP modules, deep customization capabilities and the support for mass relational data access exist. At the high end, well, nearly any statistical or reporting issue that can be identified can be subsequently resolved. ERP vendors most associated with this tier are SAP, Oracle, and Microsoft, while large tier 2 vendors such as Epicor, and Infor are always pushing for inclusion. As one can imagine, there really is no limit to the upper cost ranges for these implementations.

ERP TOTAL COST OF OWNERSHIP (TCO) ELEMENTS

The modern definition of total cost of ownership (TCO) was established in the mid-80's by Gartner Research, although prior to this, the concepts of identifying, calculating, and measuring the cost of known operational expenses had been applied since the industrial age. However, the emergence of new technologies, primarily in the form of computing and software systems, required a different slant on previously accepted cost accounting methods. Consequently, in the ERP market, the Gartner definition became the ultimate rule rather than the exception.

DIFFERING DEFINITIONS

That said, and just to refresh the reader's mind, here is how Gartner formally defines TCO "for IT, TCO includes hardware and software acquisition, management and support, communications, end-user expenses and the opportunity cost of downtime, training and other productivity losses."

Now, there is a school of thought which excludes the software acquisition costs in ERP TCO calculations. Some of you may be about to jump up and yell, "how can the software cost not be a vital element of TCO?". Well it is and it isn't, depending on who's doing the measuring. Some financial folks consider pre-operational software and license purchases to be 'capital expenses' (CAPEX) and, therefore not necessarily related to the calculation of active 'after purchase' operational costs. At the end of the day, adding or discarding these cost elements within an ERP TCO analysis typically comes down to the particular pricing model employed or the desires of an enterprise's COO or CFO.

Now that we've put paid to fuzzy accounting concepts associated with what is, and isn't a valid calculation, let's look at some of the common elements which should be included in an ERP TCO:

- Networking hardware and software costs
- Server hardware and software costs
- Workstation hardware and software costs
- Installation and integration of hardware and software costs
- Data migration costs

- Risk management; i.e. potential vulnerabilities, upgrade availability, patch and future license management etc.
- Infrastructure enhancement costs
- Power costs, i.e. affiliate equipment, climate systems, backup power systems
- Quality assurance and testing costs
- Downtime and outage costs
- Reduced productivity costs, i.e. acclimatization to system, diminished money-making ability
- Security including potential breaches, loss of brand reputation, recovery and future prevention
- Backup systems management and recovery costs
- Training costs
- Process auditing costs, i.e. internal and external
- Process re-engineering costs
- Insurance costs
- Stand-in and special personnel costs
- Project management costs
- Future upgrade or scalability expenses
- Legacy platform decommissioning costs

All of these elements, along with virtually every other hidden element that costs more than the price of a paper clip, should be applied to an ERP TCO in order to understand where one's budget is going. Cost, not revenue, is often the primary gating issue when it comes down to executing a successful ERP project.

HOW TO PRODUCE AN ERP SOFTWARE RFP

AN INTRODUCTION TO RFPs

Creating a request for proposal (RFP) is a vital step towards selecting a new ERP system during an implementation or upgrade project. Prior to developing your RFP, you should have taken steps to document your ERP requirements as these will provide a contextual framework during your RFP development project phase. Despite being downstream in the selection process, creating your RFP document is just as important as gathering your requirements - a poorly executed RFP document can render your requirements gathering work useless and hamper your project from day one.

REQUISITE STEPS

You know your business better than anyone. You and your team should have already considered how ERP software will become a valuable tool to help you achieve your goals and meet your needs. You should have assigned priorities to these agreed upon requirements. Now it is time to communicate this information to prospective vendors.

If you haven't completed documenting your requirements or come to a strong consensus on those requirements, stop. These requirements must be well researched and developed within your organization before you can share them with vendors in an ERP RFP.

CURRENT STATE AND CONTEXT

Vendors should read your RFP document and immediately understand your business' current state as well as where you expect the business to be in the future. They should understand what process improvements you are targeting and how you hope they will help your business achieve these.

You will not be sending your RFP to one vendor only. You will not have an audience of one at each ERP vendor. With this in mind, the context which you give to your requirements must cover all departments associated with an ERP project, from support to hardware.

THE FINAL PIECE OF THE PUZZLE

The final piece of the puzzle comes with an ERP vendor's response. What value is there in your perfectly-crafted ERP RFP document when all the responses you receive come in different formats and at different stages of your ERP selection process? This is your chance to make life easier for

yourself at the next ERP selection stage - dictate the exact response format you would like to work from.

The salient point is that an ERP RFP document is about communicating your ERP project. The fundamental rule of communication is that the sender is responsible for the delivery and accessibility of the information.

DOs

- Complete the requirements gathering process before you begin developing your RFP
- Assign priorities to agreed upon requirements

DON'Ts

- Write your RFP from the perspective of only one functional department
- Focus your RFP entirely on your business' current state

BUSINESS INFORMATION

Any software RFP document begins with a section covering crucial business information. In this section of your RFP, you will describe your business in such a comprehensive manner that the ERP vendor reading the request can immediately understand your current business state, processes, and expectations.

Begin with the basics: your address, number of years in operation, standard industry codes, markets served, and similar pertinent information. Now expand on the basics to include any information which is relevant to your project. At this stage, you are providing business context that will help prospective vendors develop a proposal targeted to your processes and expectations rather than a checklist of features.

COMPANY CULTURE

Who are your key personnel? What are their backgrounds? A financially-based leadership will want to see a differently worded proposal than a sales-based leadership. What business departments are expanding rapidly? Discuss your company culture and what makes your organization different from others that an ERP vendor may have worked with in the past.

Your customers also play a part in your company culture. Who buys your products or services? And not just the company name but the sort of individuals who choose your business? All this information is part of your business' biography. All of it will enable your prospective vendors to submit the most relevant proposal for your project.

ERP EXPECTATIONS

When are you looking to complete this ERP project by? Why are you considering a new ERP at this time? There will be many reasons – talk about the decisive ones. How will the ERP help you in the future? Are there some specific process improvements you are targeting that hinge on implementing your ERP system? You may have a customer expecting certain capabilities and ERP could help you deliver on the customer's needs. Vendors can return more accurate proposals when your RFP illustrates why you are considering a new ERP solution. It is important that this section does not become a list of requirements - requirements for ERP are not the same as reasons for ERP.

LEGACY SYSTEMS

Your RFP document should also include information about your legacy ERP. Don't just focus on the areas where the legacy system is now letting the business down, it is equally important to highlight aspects of the system which the business cannot live without. What other ERP systems have you used? If your business has never implemented an ERP system, you may think this section isn't relevant for your RFP - you would be wrong. Even if your processes run on paper trails and spreadsheets, information about these systems is crucial for a vendor to understand your current business state.

HARDWARE & NETWORKING

Finally, it is important to detail your current hardware and networking capabilities. Hardware will be more important if you are looking to implement on-premise software, but information about your network will be crucial for a cloud ERP project. Your RFP should not be exclusively about what the vendor can do for you, it is also an important tool for you to assess where your business may fall short when compared with a vendor's expectations.

RFP MYTHS

Myth: An RFP is only produced to assess an ERP vendor's suitability to your project
Reality: An ERP RFP can also help highlight areas where your business may fall short against ERP system requirements.

Myth: An ERP RFP should focus exclusively on IT or systems-based business information
Reality: Information such as key personnel and customer profiles are also crucial for an effective ERP RFP.

BUSINESS REQUIREMENTS

Having set the scene with detailed business information, it is now time to tell your vendors exactly what you want from your new ERP system. You may find it useful to begin the business requirements section of your RFP with schematics covering the major processes in your business - for example, batch production cycles if you are a process manufacturer, or purchases and stocking if you are a retailer. These workflow diagrams will give prospective vendors context for the ERP requirements that will follow.

FORMAT & PERTINENT INFORMATION

Now it is time to list the requirements that have arisen from process inefficiencies in the workflow described above. There is no right or wrong way to format this section of your ERP RFP, but the format you choose will encourage a vendor to respond in a manner that you are happy with. Requirements can be displayed in long-form prose, in a tabular manner (see Table 1) or a combination of formats, but whatever formatting options you choose, you should always provide the following information for each requirement:

- **Title:** giving the requirement a title will give you and your vendor a reference point going forward
- **Reason:** these could be cost reductions, cycle time improvements, competitive advantage, automation, elimination of workarounds etc.
- **Priority:** this can be qualitative (description of importance) or quantitative (priority score)
- **Function:** the functional area of the business which has the requirement
- **Time frame:** immediate, six months, two years etc - this will give your vendor scope if they cannot meet the requirement at present
- **Expectations:** where possible, give prospective vendors a quantifiable target
- **Integration:** detail any requirements for this feature to integrate with external systems (include software specifications for legacy systems)
- **Customization:** is this requirement needed day one, out-of-the-box, or is long-term development of a custom solution acceptable?

Your requirements will not all be process related. You may want an ERP vendor who is minority-owned or local to your production plant. Your ERP system may need to run on Windows 8 and support touch screen devices or you may require a system which will support your BYOD program.

REQUIREMENTS TEMPLATE

Table 1 shows an ERP RFP requirements template for a manufacturing company covering operations management, quality management, and planning and scheduling. This table structure can be expanded to include any functional and technical specifications that you identified in your requirements gathering project. To download an expanded version of this table as a spreadsheet (including templates for manufacturing, distribution, retail and more), click here.

VENDOR RESPONSE KEY

OOB = Provided Out-of-the-Box
CUS = Available through customization
BOL = Available through a bolt-on at additional cost
3RD = Available through integration with 3rd-party software
FUT = Available in the near future (define a timeframe)
NA = Requirement is unavailable

Table 1			Vendor Response					
Feature Requirement	Priority	Timeline	OOB	CUS	BOL	3RD	FUT	NA
Manufacturing								
Operations Management								
Kitting								
Fulfillment								
Lot numbers / serial numbers								
Plant and equipment maintenance tracking								
Shelf life and expiration dates								
Quality Management								
Regulatory compliance								
Documented training for employees at certain operations								
Traceability to specific materials								
Traceability to specific customer deliveries								
cGMP compliance								
HACCP compliance								
Inspection plans at operations or materials								
Planning & Scheduling								
Real-time inventory availability								
Production schedule and shop dispatch								

VENDOR EXPECTATIONS

Once you have covered your ERP requirements, it is important to provide a format for prospective ERP vendors to follow when developing their reply. This format will improve the quality of responses as well as ensuring you can easily process these responses once received. Giving vendor responses a structure also allows you to compare them directly, requirement-by-requirement.

This section of your RFP can follow much the same format you used to detail your requirements, covering areas such as feature availability and timeframe. But as well as responding to your requirements list, vendors should provide information on a number of other project variables.

SCHEDULE

You have already discussed your expected schedule for this project, now it is time for theirs. Request a detailed schedule from your vendor covering each project stage, the personnel they would provide for your project and the availability of these personnel.

When do you require their response? Give them enough time to prepare a worthwhile reply but set a limit by stipulating that any response after a defined date will not be considered.

REFERENCES

Ask for a minimum of three customer references and request that these references reflect the challenges and expectations of your project where possible. Request the name of the business, the primary contact, their line of business, the date and time period work was done, and why they included that reference. You will contact these references, of course. You should expect only to get good references, but you can use these as search parameters and might learn of less successful projects which provoke questions to be discussed at a later date.

PERSONNEL

Who will work on your ERP project and what are their backgrounds? Everyone hopes for top-level people with significant ERP implementation experience, ideally in your industry, but the reality may be different within your budget. How many hours do they estimate will be needed for your project and over what time period? What are the billing rates for different people or classes of people? Replies here will provide you with a time and expenses budget for your implementation.

FINANCIAL

Your expectations for financial information from your vendor will depend largely on whether you expect to follow the RFP process with a request for quote (RFQ). Traditionally, an RFQ would be sent to vendors who were selected following the RFP process. This document would request cost information for licensing, customization, support, maintenance as well as the payment terms. Even if you will be covering the majority of cost information in an RFQ, it is still useful to assess your vendor's financial standing at the RFP stage. Request financial results, client acquisition rates or product investment levels for the past few years. This is your chance to assess a vendor's current standing and future stability.

As well as these project variables, it is also important to give prospective vendors freedom in at least one section of their response. There may be a crucial project variable which you have forgotten to ask about, or a feature they feel would solve one of the outlined process inefficiencies.

SELECTION CRITERIA

Almost as important as the development of an RFP document, is the development of a structured evaluation of vendor's responses. Without a well-executed evaluation of these responses based on pre-defined selection criteria, all the work leading up to this point will be lost in a disorderly debate over who thinks which vendor is best.

YOUR REQUIREMENTS

The first criterion in your response evaluation are your requirements. You identified some as must have or high priority. If a prospective ERP vendor cannot fulfill one of the primary requirements, their proposal will be set aside.

Next, assess the vendor's response on lower priority items. You may look for a breadth of feature support regardless of the customization or integration work involved. You may prefer responses which cover less features but focus on out-of-the-box supply, leaving you without the burden of further implementation costs.

PROFESSIONAL SERVICES

Prospective ERP vendors should also provide a commitment to your requested level of ongoing support and professional services. Every project's required support levels will be different. You might want your hand held throughout implementation, or you might want emergency support only. Look for an RFP response that understands your support requirements and meets or exceeds them.

FINANCIAL STABILITY

Financial stability is also important. Look for a solid balance sheet and a profitable P&L statement with a reasonable rate of growth. Your vendor should have other clients and must not depend on your business for their continued existence.

CLIENT REFERENCES

Consider the vendor's previous or current clients - these could be the references given in their RFP response or identified through your own research. You may decide evidence of previous experience on projects similar to yours is key - a niche skillset to match your niche project. On the other hand, you may be more interested in seeing variety in past projects, demonstrating a breadth of ERP experience and knowledge.

As you can see, it is important to establish your selection criteria before you begin reviewing proposals. Bells and whistles can easily cloud your vision once you have begun the review process and objectivity can collapse like a house of cards.

Despite the challenges involved, each step towards developing an ERP RFP document can be achieved with careful pre-planning and a clear and concise output. Apply these to your project and you will be able to conduct the next stage of your ERP project, whether it be a software demo or an RFQ, in an efficient and knowledgeable manner.

ERP RFP FRAMEWORK

A cheat-sheet to help you create a clear and concise RFP document.

INTRODUCTION

- **Statement of purpose:** overview of project motivations and goals

BUSINESS INFORMATION

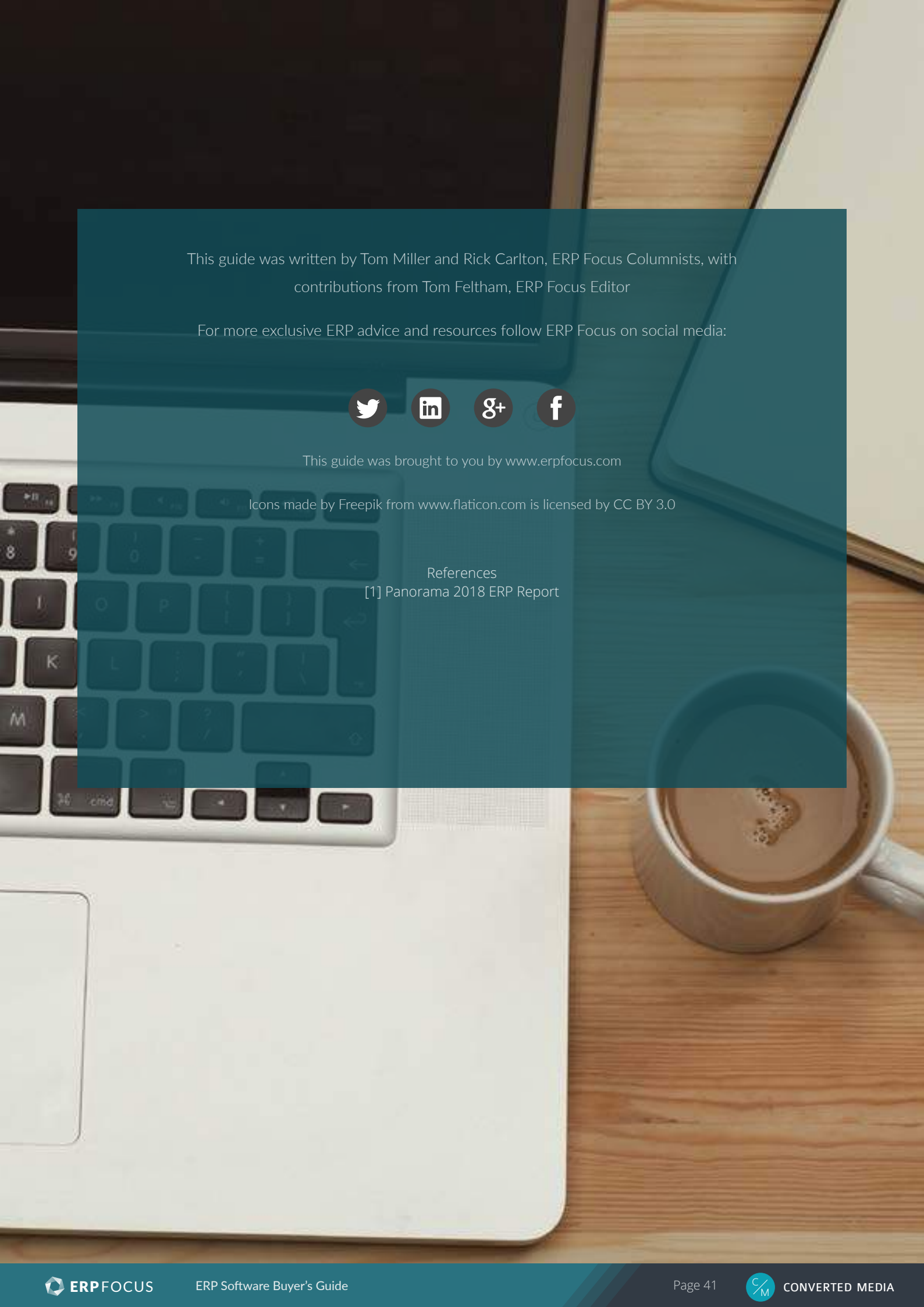
- **Brief introduction to the business:** include number of employees and financial results
- **Product and services overview:** describe current products and services, especially those that will be improved through this ERP project
- **Geographics:** office locations, customer locations, expansion plans (if relevant to the ERP project)
- **Market information**: statistics, current trends and commentary on the industry you work in
- **Customer profiles:** customer demographics, customer turnover, case-studies
- **ERP project overview:** include expected number of users and overall timeline for the project
- **ERP project goals:** cover the most important goals for your project and discuss the following three variables for each; scope of work, timeline, and expectations/deliverables
- **Legacy systems and integration:** outline current IT systems you are utilizing including any that must integrate with ERP
- **Hardware and networking:** outline your business' IT hardware and networking capability in relation to your ERP project goals
- **Key project personnel:** include background on each team member (including previous project experience)

BUSINESS REQUIREMENTS

- **Process schematics or workflows:** provide a detailed overview of processes that will be run through your new ERP system
- **ERP requirements:** list each of your ERP requirements that were identified prior to developing your RFP. Cover each of the following points:
    1. **Title:** a reference point for you and your vendors going forward
    2. **Reason:** e.g cost reductions, increased automation
    3. **Priority:** prioritize each requirement qualitatively or quantitatively
    4. **Function:** the functional area of the business with this requirement
    5. **Timeline:** specify when this ERP feature is required
    6. **Expectations:** if possible, make expectations quantitative and measurable
    7. **Integration requirements:** (where applicable)
    8. **Customization:** (where applicable) is a customized solution acceptable?

VENDOR INSTRUCTIONS

- **Format:** give prospective vendors a clear format and structure for their responses
- **Schedule:** outline the schedule you expect vendors to follow when developing their responses
- **References:** request and specify guidelines for customer references from each of your vendors
- **Personnel:** request details of the personnel they would assign to this project and the backgrounds of these individuals
- **Financials:** if you do not intend to develop an RFQ after receiving RFP responses, request cost information for the project



This guide was written by Tom Miller and Rick Carlton, ERP Focus Columnists, with contributions from Tom Feltham, ERP Focus Editor

For more exclusive ERP advice and resources follow ERP Focus on social media:

This guide was brought to you by www.erpfocus.com

Icons made by Freepik from www.flaticon.com is licensed by CC BY 3.0

References

[1] Panorama 2018 ERP Report