

# Getting into ERP

## A Step-by-Step Guide to Gaining the Maximum from your ERP System Investment

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Enterprise Resource Planning (ERP) software systems are computer-based planning and control systems that aid in tracking the total resources of a manufacturing company, and help allocate those resources so the company meets its business and financial objectives. Most managers in manufacturing know about ERP and what it can do, yet many companies that have adopted ERP systems discover to their dismay that improved results don't arrive automatically with installation of hardware and software.

Why is this so? To understand the reasons, and to begin working toward improved results, requires accepting one basic truth: Simply overlaying a new computer-based system on existing operations will not substantially improve performance. To obtain maximum performance from an ERP system, a company must comprehend the changes ERP requires. Involving both functions and philosophy, these changes call for a serious, consistent, and well-planned effort to extend that comprehension throughout the company.

Indeed, studies have proved that 50 percent of the costs of an ERP system derive from hardware, software, and consulting work needed to get the system up and running. In industry jargon, this is called the computer path.

The other 50 percent of total costs comes from investments needed in people, education, and training to apply the ERP system. This is known as the management path.

After analyzing benefits derived from ERP, however, users discover that only 25 percent of the total dollar return comes from hardware and software. Well-trained, people deliver the remaining 75 percent of the ROI in ERP.

### Choosing a system

An important but often confusing step in the computer path is selection of hardware and software. It is widely recognized that many hardware systems have capability to run ERP. In fact, a number of software options are offered for most popular computers.

Which combination of software and hardware is best for your company? The fact is there's no one best fit that applies to all companies. Different systems bring different advantages to different organizations. To find an ERP system that serves your company well, there's no way you can avoid conducting a thorough, detailed search.

Generally speaking, your search should begin with the software. In many companies, however, the hardware is already in place. Where this is true, software selection is automatically narrowed to what's available for the installed hardware.

There are three basic rules that an ERP project manager and team must keep in mind when searching for a system. First, they should look at software as a tool, remembering that the best tool is one that does the job. Tools having all possible bells and whistles are not necessarily good for the job at hand.

Secondly, your project manager and team should limit their search to proven, existing software. Keep in mind that a few vendors try to sell software that hasn't been completely developed or proved. Your chances of getting good results from an ERP system are more favorable if other companies already use it successfully.

Finally, your project manager and team should look for a software package that meets 90 percent of your company's functional needs. Resist any urge to modify the software. The closer your company can stay to standard "vanilla" software, the better your chances for success.

### **Writing specs**

Your company's management, along with the ERP project manager and team, need to be educated in the company's basic business requirements. This is needed to properly identify software needs for business planning, database operations control, and support needs.

Through education, people making the selection also should learn the difference between need-to-have and nice-to-have functions being written into software specs. A useful aid in writing these specs is to follow these steps:

1. Determine your ERP software needs by looking at the company's business. Identify present needs, future plans, and current capabilities in data processing. Review interfaces required between parts of the company.
2. From the project team, pick a task force that will compare defined needs against standard features in available MRP II packages. If any company needs apparently call for non-standard features, those so-called needs should be rigorously reexamined. You may have written too many nice-to-have functions into your specs.
3. Prepare a specification request for proposal (RFP) outlining the ERP system's desired features, and circulate it among two or three software suppliers. Include information on your company's history, products, markets, application needs, bidding instructions, and the deadline for a bid.

Your RFP format should require the bid to respond to specs and to provide answers to these questions:

- How long has the software vending company been in business?
- What is the vendor's annual sales volume?
- How many ERP systems does the vendor sell in an average year? How many sold last year?
- What is the vendor's total number of system installations?
- Can the vendor provide a number of client references?
- Among users, are there Class A certified users?
- How many vendor employees support the application software?
- What documentation is provided to users?
- Are there sample reports?
- Are there users' groups?
- What are the vendor's plans for the future?
- How much does the ERP System cost? (This figure must pertain to the installed or proposed hardware.)
- Is there a free service warranty? If not, how much does a warranty cost, or what is the average cost of a year's maintenance?

### **Evaluating proposals**

When proposals come in they should be evaluated by the ERP task force. Each vendor that passes the bid review should be invited to come in and make an on-site presentation for a half-day or full day. This procedure will narrow the field of vendors down to one or two.

Next, the task force should visit vendor facilities to meet their people, ask questions, see support efforts in action, and further evaluate capabilities. Vendors still under consideration should be asked conduct a demonstration using actual data from your company.

Finally, the ERP task force should conduct a field trip, visiting one or two user sites for each vendor still under consideration. This gives your people a chance to see software in use, talk to people using it, evaluate actual output reports and determine how well the system meets the user's needs. Vendor reps should not be present during these user-site visits.

Remember, a 90-percent fit is what you want. At most, two or three vendors can meet 90 percent of any given business' needs. Your job is to find the best fit.