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SECOND EDITION

ENTERPRISE SYSTEMS FOR MANAGEMENT

CHAPTER 6

SOFTWARE AND VENDOR SELECTION

Learning Objectives

- Understand the initial steps in the process for the successful purchase and implementation of an ERP system.
- Determine the total cost of ownership and what it is to partner with an ERP vendor.
- Understand why the first steps in the purchase of an ERP are critical to the change management process.
- Identify the steps involved in negotiating a contract with a vendor.

Preview

- The selection of a vendor that best meets the needs and long-term direction of the company is a critical first step in a successful implementation.
- In selecting a vendor, a well-understood selection process will need to be utilized.
- The company may want to hire a specialized consulting firm to assist in the selection process.
- The steps involved in selecting a vendor generally are based on best fit of an ERP to business functions and the overall ERP vendor's product performance in the market.

High Level ERP Purchase Process

1. Vendor research and information gathering
2. High-level vendor demonstrations and evaluation
3. Needs and requirements assessment
4. Development of request for bid or proposal
5. Release request for bid to vendors
6. Analysis and selection- Evaluation of bids, Functional evaluation, Technical evaluation, Vendor-detailed demonstrations, Contact references, Develop a total cost of ownership
7. Vendor negotiation,
 - a) Contract review and change,
 - b) Pricing- software, maintenance, and consulting, support
8. Purchase system

Vendor Research

- First step is to identify a short list of vendors who will help to shape business requirements.
- Identifying and researching all aspects of a vendor package will assist companies in determining the total cost of ownership.
- An exhaustive list of vendors is important for a successful implementation using current web search engines.
- Ask department managers and subject matter experts for their input in vendor selection.
- Including end-users will help with change management and also help to gain trust for later in the implementation.

Vendor Research (Cont'd)

- Consider the following for vendor selection.
 - Other businesses using the vendor
 - The vendor's financial position
 - The vendor's implementation philosophy and support issues
 - The hardware and software infrastructure used to support the ERP
 - The vendor's direction and currency of software
 - The vendor's release and upgrade strategies
 - The vendor's user-base involvement in defining future functional changes
 - The vendor's development and maintenance resources

Short List of ERP Vendors

- **SAP**—Solutions are for all types of industries and for every major market. Its products include mySAP Business Suite, SAP NetWeaver, and solutions for small and midsize companies (e.g., SAP Business One and SAP All-in-One).
- **Oracle/PeopleSoft** — (Acquired PeopleSoft in 2004) Provides solutions divided by industry category.
- **Lawson** —Provides industry tailored software solutions.
- **SSA Global**—(Acquired Baan in 2004.) Claim to offer solutions that accomplish specific goals in shorter time frames.

Short List of ERP Vendors (Cont'd)

- **Great Plains-** Part of the Microsoft Business Solutions group of products, its solutions can be tailored according to business needs.
- **Epicor-** Focuses on enterprise software solutions for mid-market companies.
- **Infor Visual-** Flexible, fully integrated, and easy-to-use ERP suite that is widely deployed across many industries from aerospace to biomedical, capital equipment, precision tools etc.
- **Plex Online-** Plex Online provides a full suite of enterprise resource planning, manufacturing execution system, and supply chain management solutions

Matching User Requirements to Features

- Identification and documentation of user and system requirements can be done by documenting current legacy system functionality or by using business process re-engineering.
- Two major documents are often a result:
 - Data and functional flow of departmental or business processes.
 - Table or description of functions in each department and the level of importance of each function.
- Identifying vendor system functionality based on documented processes will help to purchase a system based on facts.

Request for Bids (RFB)

- Often known as Request for Proposals (RFP)
- Expensive and time-consuming process for both the company and vendor, but it can yield significant software savings when done right.
- RFB should always include the following:
 - Type of ERP system the company wants with specific functionality
 - Specified hardware and software infrastructure
 - Training requirements
 - Any specific contract issues required by the company

Vendor Analysis and Elimination

- Office staff will need to evaluate functionality.
- IT staff will evaluate the technology requirements.
- Contract staff will need to evaluate the contract and pricing of the system.
- No vendor will meet all requirements so vendor discussions and negotiations should focus on the best fit for the business.
- Develop and analyze the total cost of ownership (TCO).

Contract Management and License Agreements

- Talks should center on the products included in the purchase and maintenance terms of each product.
- Professional services for the implementation or installation can be included or bid separately.
- Contract life cycle management will need to be addressed during contract talks.
- Things every ERP contract should have:
 - All deliverables must be clearly identified with delivery dates associated.
 - Ensure that you, the customer, have acceptance authority.
 - Identify those responsible on both sides for contract management and who has the authority to authorize changes to the contract.

Contract Management and License Agreements (Cont'd)

- A quality manager or contract monitor appointed by the program manager will have primary responsibility for making sure both sides abide by the terms and conditions of the contract.
- Changes should only be made when necessary due to unforeseen circumstances, mutually beneficial reasons, or unintended mistakes.
- Communicating progress keeps all involved and will also help to maintain momentum.
- It is best to over-communicate during this phase: Communicating progress keeps everyone involved

Implications for Management

- Management must play a role in choosing the right system that will meet the company's needs and requirements.
- Management must allocate enough time to evaluate the system, observe a complete and comprehensive demonstration, and communicate to references and others using the system.
- Discussions with the vendor about future improvements and direction must be scheduled.
- Negotiating with two vendors is time-consuming, but it will yield a better purchase price.

Summary

- The majority of ERP systems today are purchased
- Steps involved in purchasing a system include:
 - Vendor research
 - Defining business requirements
 - Requesting information
 - Matching requirements to system functions
 - Request for bids
 - Analyzing vendors
 - Meeting business needs
 - Determining total cost of ownership
 - Negotiating a contract and license agreement

Summary (Cont'd)

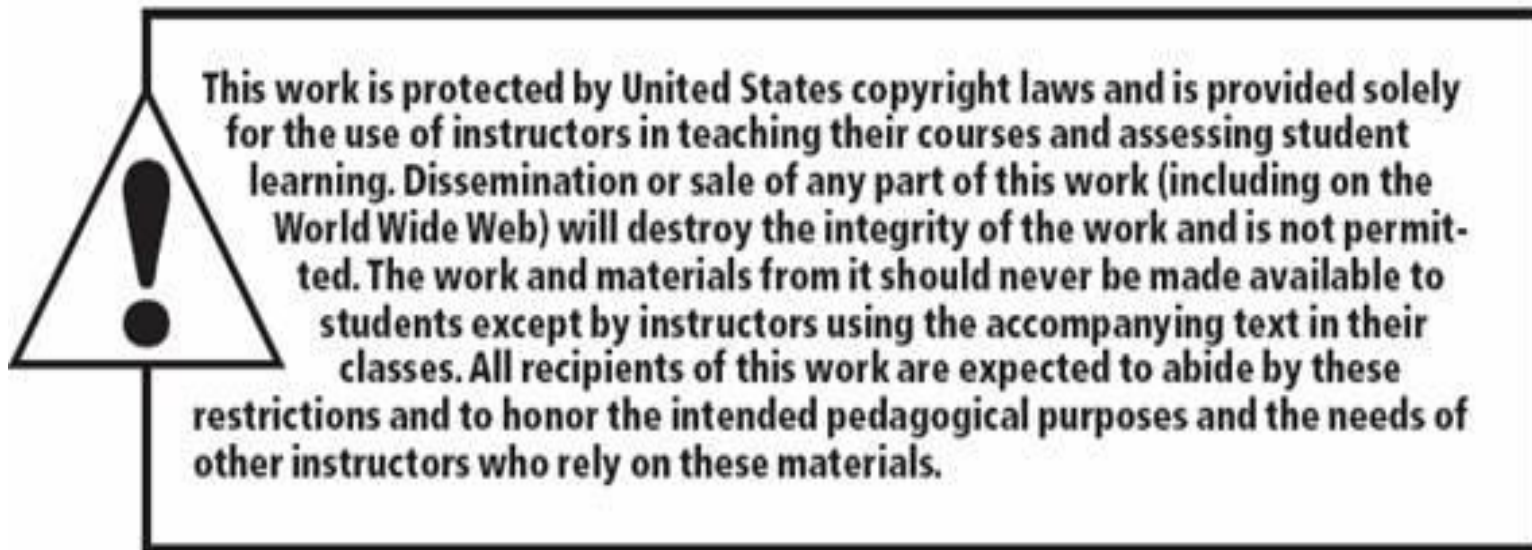
- A business must deal in facts with every step of purchasing an ERP system. A decision will be made based on:
 - Gathering information
 - Researching vendors
 - Documenting business processes
 - Reviewing vendor bids.
- During the implementation phase, it is important to know detailed information on ERP system functionality and business requirements as it is the basis for setting implementation expectations.

Review Questions

1. What are the steps in purchasing an ERP?
2. Who generally needs to be involved in the ERP selection process and why?
3. What is total cost of ownership (TCO) and why should it be a part of the ERP selection process?
4. What are the key components in the contract negotiation and licensing?
5. Why is it important in the request for bid process to make the vendors reply in a specified format?

Review Questions (Cont'd)

6. Why is communication important in this phase?
7. What is the difference between RFI and RFB?
8. What are the benefits of a bidding process to purchase an ERP?



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