



Tying it All Together

“What You Need to Know Before Buying a Small Business ERP Package”
By Lori Burt

While Enterprise Resource Planning (ERP) systems have become the standard in larger companies as the most effective approach to managing critical business processes and information, now smaller companies are starting to take note of the benefits as well.

ERP systems offer significant opportunity to companies of any size to integrate and automate information and processes, so that data enterprise wide is shared with everyone in the enterprise who needs it. They help a company manage the important parts of its business, such as product planning, parts purchasing, managing inventories, interacting with suppliers, tracking orders, and providing customer service, ultimately improving efficiency, and therefore profitability.

ERP is pushing its way into smaller companies for two key reasons: First, smaller companies are feeling increasing competitive pressures to become more efficient and more effective. Large companies in many cases are dictating that their small company suppliers get online with compatible systems that can interact to share product order information, inventory data, tracking and shipping information, etc.

A national information technology (IT) firm identified ERP as one of the top 10 trends of 2004, saying ERP and supply chain management solutions will increase as much as 20 percent through spring of 2005 as small and medium businesses adopt technologies to satisfy large business demands. Another survey released in spring 2004 predicts the ERP market will reach about \$27 billion in 2004 and will grow to \$36 billion by the end of 2008.

The second driver of growth among smaller companies is competition among vendors. Facing soft but slowly recovering demand among larger companies, software producers and vendors increasingly are targeting smaller companies as an area of growth. Even giants like Microsoft have come forth in recent months with new packages, not just in ERP but in a variety of business applications, specifically targeting smaller business.

Those vendors may have the functionality and benefit to offer smaller companies, but the decision to adopt an ERP system and the selection of an appropriate package involves a great deal of planning and research before a conversation with a vendor should ever take place.



ERP systems come in every shape, size and variety, offering every imaginable approach to automating and integrating information. Industry forecasts say growth in ERP is a given smaller companies in particular need to define their objectives in adopting an ERP system to assure they will select a system that is appropriate to their needs adequate for today's business and future growth potential, but not excessively complex.

Define the Business

For every business, there are three to five key differentiators that distinguish the company and narrow the field of prospective software applications. Identify those differentiators as the starting point in narrowing the software and vendor selection.

The first step is to define the nature of the business - manufacturing, distribution or retail. A manufacturer should look at packages specifically intended for manufacturing, and a retail business should consider software only intended for retail.

Doing Your Homework

Evaluating and selecting an ERP system can be difficult, time-consuming and frustrating. The key is to carefully define objectives before engaging a sales representative.

1. Organize Team

- Establish steering committee and evaluation team.
- Develop project plan and milestones.
- Define responsibilities and reporting mechanisms.

2. Set Objectives

- Define strategic and operational objectives to be achieved.
- Identify shifts in strategy anticipated in the next three to five years.

3. Analyze Processes

- Review and analyze all aspects of the business requiring system support.
- Ensure all business functions are covered, including: engineering, estimating and quoting, sales order processing, forecasting, planning and scheduling, purchasing, production, maintenance, quality, warehousing, shipping, post-sale service, cost and financial accounting, human resources and payroll.

4. Define the Requirements

5. Research and Identify Alternatives

- Compare functional requirements with commercially available software products.
- List best-fit products, based on requirements and budget.
- Prepare matrix to compare each recommended product with the company's functional requirements on a feature-by-feature basis.
- Assist with selection of finalists for further investigation.

6. Solicit Quotations

- Develop and distribute a Request for Proposal (RFP) to the finalists.
- Prepare a summary matrix comparing the bids' total cost of acquisition.

7. Manage the Software Demonstrations

- Schedule demonstrations of the finalists' products.
- Develop and distribute a script, or compulsory agenda, for the vendors to follow.

8. Assist with Selection and Acquisition

- Guide evaluation team through a post-demonstration review of the candidates.



- Develop the company's functional requirements by selecting from and weighing a set of predefined potential software attributes.
- Identify and document additional unique requirements that fall outside standard attributes.
- Review proposed requirements with the management team.
- Offer neutral insight during the final selection process.
- Assist with the development of reference and due diligence criteria.
- Conduct due diligence work.
- Negotiate contract.

It requires a significant commitment of time and money to properly select and implement an ERP system. A software vendor who would try to sell a manufacturing application to a retail business, claiming "it can be customized to do whatever you want it to do," should be dismissed before the conversation goes any further. It would be like asking a dentist to remove your appendix. It's expensive, frustrating and fruitless to try to make an application do something it's not intended to do, especially when an off-the-shelf package from another vendor does exactly what you need in the first place.

If you're in manufacturing, define even further whether you are an engineer-to-order or make-to-order manufacturer, or whether you are a configure-to-order or make-to-stock manufacturer.

In a make-to-order environment, you likely are dealing with a large number of variables associated with each product and each customer order. As such, you'll need an ERP system with a great deal of capability and flexibility to support a large number of variables in the ordering process.

In a make-to-stock environment, however, the product will be shipped off the shelf. Instead, you will want an ERP system that focuses more on production forecasting and materials planning, enabling you to better manage what you keep in stock both in raw material and finished goods.

Identify Key Process

The next step is to define the processes within the business that are critical to the operation. Take special note of functions that have processes or data in common but are essentially isolated from one another based on your current system.

For example, do you have a system for purchasing products or materials and an entirely separate one for taking and fulfilling customer orders? In virtually any retail or manufacturing environment, these are core functions that are highly inter-related, yet they often operate independently, resulting in duplication of efforts, delays, inaccuracies, and poor planning.



When you've identified key processes and functions that are core to your business, line up your list with the functionality of various ERP software features to see where you find a good match. Keep in mind that it's not likely you'll find a perfect fit, but you're looking for a close fit. You'll probably narrow your list of ERP application options to only a few or a handful by this point in the process.

It is well worth noting that many companies - small and large alike - often face an important revelation at this stage of the ERP selection process. They discover that some process or function they defined as "critical" isn't offered by any of their top application choices.

Why? It could be that the function or process in question simply isn't a sound business practice.

The implementation of an ERP system is the ideal opportunity to step back and ask questions about how your company operates and whether certain steps or processes are in place for the wrong reasons. ERP is not meant to simply automate exactly what you've always done, but to improve how you operate at the same time. Be prepared to surrender bad practices and enjoy the newfound efficiencies along the way.

Don't be Dazzled

Virtually every type of software on the market for any conceivable application offers something "cool." Bells and whistles are everywhere.

Stay focused on your defined list of core processes and functionality when hearing the sales pitch about the "cool" side of a specific software package. It may seem impressive that you'll get an automatic e-mail message every time a package leaves the loading dock headed for a customer location. But at what cost? And for what benefit? Is it information you need to have, minute by minute? It may be more functionality and information than you need.

It also may be more complexity than your staff can handle. Be cautious to keep employees apprised of your implementation plans and to train them properly when you adopt a system.

Ultimately, the ideal ERP system for your company is one that makes it easier to operate and manage your business. Certainly there is a learning curve as you significantly transform the way you do business, but the objective is to reduce complexity and make processes more logical, even intuitive.

Finally, it is important to recognize that while the implementation of an ERP system offers significant opportunity to improve business processes and ultimately improve profitability, it is not a simple process that can be undertaken on a whim.

It requires a significant commitment of time and money to properly select and implement an ERP system. It is best pursued with a complete



understanding of the process, the cost, and the return on investment. And if your company lacks adequate expertise internally, it may also require the outside assistance of an implementation consultant. You want to work with someone who is focused on helping you improve your business processes, not simply sell software and get it installed.

Yours could well be one of the small companies in the coming year that pulls ahead of the competition by implementing an ERP system. Be prepared to pursue the process intelligently and vigorously to assure success.

