

Advisory Services  
Application Services

# The right choice.\*

Implementation starts with selection



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# Table of contents

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The heart of the matter	4
<b>Making the right choice: Selection process is key</b>	
<hr/>	
An in-depth discussion	6
<b>The benefits of a robust system selection process</b>	
Software selection: The proof is in the process	8
Stakeholder buy-in: A crucial component for success	9
The price companies pay for underestimating the value of the selection process	10
<hr/>	
What this means for your business	12
<b>A thorough selection process paves the way to competitive advantage</b>	

The heart of the matter

# Making the right choice: Selection process is key

Software purchases are not created equal. When a company needs to make sure the documents it develops and produces can be widely distributed and communicated to its clients, business partners, and consumers, the decision to purchase a word processing solution is relatively simple. This type of standard software purchase usually does not require a substantial investment and, though the software may be used companywide, it's not strategically relevant to the company's success.

In contrast, purchasing complex enterprise resource planning (ERP) solutions or any large software system directly affects how a company conducts its business. ERP systems require significant investments in time, money, and employee training. Additionally, to improve its investment, a company needs to choose a solution that not only meets its current needs, but also supports the company as it grows. Software solutions must be scalable to support increased volumes and increased complexity as business grows and companies expand. This makes the software selection process critical to laying the groundwork for a successful implementation for the long term.

The consequences of choosing a software solution that does not effectively support the business can be substantial and can include:

- The cost of selecting and implementing a replacement software solution or investing in additional resources (e.g., licensing costs, support costs, add-on costs, etc.)
- The cost of retraining employees
- The impact on employee morale due to time lost from learning how to use new solutions

Spending the time to “do it right” (e.g., selecting and implementing the appropriate package) the first time can save time and money and increase employee satisfaction.

Companies also need to be careful of “overbuying” when selecting an ERP solution. Not all companies need a tier 1 system with myriad functions and features and all the bells and whistles that vendors pack into these solutions. When considering ERP solutions, overbuying, selecting a system that doesn't meet business needs, or selecting the right system with the wrong configuration can potentially cost companies millions of dollars.

Unfortunately, many companies don't take the time to engage in a robust, structured, and thorough system selection process. The time and effort required to implement a system is significant. If companies choose the wrong system, an inflexible system, or an overly complex system, they may spend more than is necessary to obtain a system for their needs, as well as disrupt their business, potentially dampen the morale of their employees, and increase the costs of trying to fix their problem.

An in-depth discussion

# The benefits of a robust system selection process

For companies that invest in complex software systems, upfront due diligence is critical. The investment can be substantial in terms of cost, licenses, training, and employee morale as adapting to the new system strains the business's day-to-day operations.

Typically, companies seek a new software system when they need to replace or supplement their old software or streamline processes and create cost efficiencies in the wake of recent growth or changes to the business.

Generally, initiating a robust system selection process can benefit companies in at least three ways:

- Risk reduction
- Cost reduction
- Business process enhancement

Companies that employ a thorough system selection process can reduce the risk of software failure by making total cost of ownership (TCO) forecasts more accurate, better defining system requirements, and giving stakeholders a voice in determining the requirements, which motivates employees who have a hand in shaping the solution.

Far too often, companies purchase large enterprise systems without considering which software solution might best fit their needs. When the wrong system is purchased, the company often ends up shoveling more money into the project to customize the system and support it with special resources. More problems are likely to ensue because systems that are heavily customized may lack the capability to be upgraded when newer versions of the software are released. This can leave a company vulnerable to owning an application that is no longer supported by the vendor and/or a software solution that is unable to grow with its business.

Some system implementations fail because they simply do not meet the company's needs. By conducting a thorough selection process, companies can target solutions that address specific company needs. Costs can be greatly reduced when companies choose the right solution the first time and don't need to fix or endlessly tweak their chosen systems. Also, encouraging employees to participate in developing the requirements for the system often results in decreased training and implementation costs, as well as a much higher rate of adoption when the system goes live.

From an operational perspective, a structured system selection process analyzes a company's core business functions and determines how those functions can be improved. This focused examination helps companies identify key processes that can be redesigned or restructured to streamline the processes and better serve the company's needs.

For example, when defining its requirements in the early stages of the selection process the company may uncover that its quoting process or customer relationship management (CRM) system is not integrated with its order entry module. This disconnect requires salespeople to enter order details twice for each sale—once when they're making the initial quote with the customer and again when they reach a deal. Re-entry increases the risk for errors and can cost salespeople valuable time they could have spent making additional sales or developing relationships with current and potential customers.

One way to enhance this company's sales process would be to configure its new ERP system so that customer order information inputted during the quoting process is automatically integrated with the sales order when sales are concluded. This would save the salespeople time and reduce risk by eliminating the need for dual entry of customer data. Streamlining these types of processes can mean the difference between a company's profitability and its fight to survive in today's harsh economic climate.

### **Software selection: The proof is in the process**

When choosing a solution that fits your business, our experience shows the most successful selections and implementations follow a structured methodology that consists of five steps: 1) define requirements; 2) issue a request for information; 3) distribute a request for proposal; 4) conduct vendor demonstration; and 5) select the solution.

Though the details of each selection process will vary, the most successful typically follow the same basic outline tailored to the company's specific needs and requirements. The most critical step in the selection process may be the first, and it is where most companies' plans for an efficient software solution come up short. Let's explore the five steps in more detail:

**Define requirements**—Workshops are often held with key people in functional areas to present the requirements of the desired software solution. During this step, the focus should be on identifying unique “value driving” requirements that support the company's competitive advantage. Typically, workshop participants include the managers, supervisors, and employees who will be using the system. To help accelerate the identification of requirements, consultants often can provide the company with basic industry-based templates, and the company can customize its selections. Once defined, requirements must be prioritized before advancing to the next step in the process. At this initial stage, the prioritization model can be complex or as simple as labeling each requirement as a “must have,” “nice to have,” or “optional.”

**Request for information (RFI)**—When a company completes its prioritized requirements list, the next step generally involves selecting the types of solutions and key requirements that vendors must be able to address. For example, if a company wants to look at tier 1 and tier 2 solutions that may meet its needs, a list of key requirements can be selected and presented to vendors in an RFI. The vendors can then answer the request with the solutions they think will address the company's requirements.

**Request for proposal (RFP)**—Once the list of potential vendors has been reduced to vendors that can meet the company's key requirements, the company can ask the selected vendors to fill out the entire requirements matrix in a request for proposal, which allows the company to see how different vendors' solutions line up with its needs. The company can readily see whether a vendor has an out-of-the-box solution available to meet its

requirements or a solution that will require configuration and customization. Different pricing options also are generally part of an RFP response. From the vendors' submissions, a company will need to determine which potential solutions fit its vision and budget. An experienced system selection consultant can create a composite score for each vendor that submits a proposal and help narrow the competition to two or three options.

**Demonstration**—In this step, a company will present the remaining vendors with scenarios typical to the company's unique business needs. System selection professionals can often develop more detailed and complete scenarios based on the unique requirements contained in the company's requirements matrix. The vendors can then prepare their demonstrations to showcase their solutions. Typically, the company asks key managers and supervisors – usually the ones involved in defining the requirements – to evaluate the demonstrations to help determine the best fit for the organization.

**Decision time**—During this step, scores for each solution are weighed and discussed, which allows the company to evaluate the strengths and weaknesses of each solution and make an informed decision on which package to select. The decision often involves developing a TCO analysis, preparing for contract negotiations with the chosen vendor, and discussing the steps required to prepare for an implementation (hosting, support, system implementer decisions, etc.). Again, an experienced consultant can effectively facilitate these discussions and often will help streamline the decision process.

### **Stakeholder buy-in: A crucial component for success**

One of the most important factors often overlooked in system implementation projects that do not succeed is stakeholder buy-in. When it comes to any software change or purchase, companies need to garner support from key people in the organization affected by the decision. For example, if the chief financial officer (CFO) makes a purchasing decision and decides to implement a new type of accounting software without consulting the people

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responsible for using the software, implementing the system may take longer and require extra time and commitment from accounting department members. Stakeholders affected by the system change may be miffed that they were not asked for their input before the change was made, and they may drag their feet during implementation. This type of implementation is often doomed.

For better results, the CFO might say: “We’re about to invest in a system that will do X, Y, and Z. We think it will make your jobs easier, and we want your input because it directly affects you.” Then stakeholders are more likely to be gung-ho in the initial stages of the project, and when it comes time to implement the solution, things will go more smoothly.

These stakeholders are typically not C-suite executives, but often are members of middle management. The key people to get on board will vary on a case-by-case basis; it may include the warehouse manager at an inventory-intensive company, or the head of accounts receivable if the days’ sales outstanding and collections metrics are critical operational processes.

At some companies, getting salespeople interested and involved in the process may be important. They tend to view anything that takes time away from their efforts to make sales as a distraction. Therefore, if a company’s ERP solution includes features that enable salespeople to better track leads and calculate their commissions, they are more likely to cooperate during implementation. In this type of situation, it would be crucial to speak with the company’s sales manager to learn about the salespeople’s particular pain points and be better prepared to deal with the change to a new system.

### **The price companies pay for underestimating the value of the selection process**

To give some context to how important a thorough selection process is when choosing a complex software system, consider a big-box retailer that sells electronic goods. The retailer bases its buying decisions on price and carries larger inventory supplies than necessary to meet demand. This scenario can arise when a company does not have a demand forecasting application, the application is too cumbersome to use, or the company’s purchasers ignore the demand forecasts because they feel like they can make better deals and do a superior job ordering on their own.

A more structured demand and inventory forecasting system can help manage these types of large-scale purchases and enable the retailer to decrease inventory costs and use its increased cash flow to fund strategic investments and business growth.

When selecting a software system to help manage operations such as purchasing and inventory, possible solutions should meet each company's unique needs, and these needs can be targeted in the define-requirements stage of the selection process. When a company diminishes the importance of a thorough selection process that methodically details a solution's requirements, the cost of an implementation project often escalates beyond its original budget. Costs can continue to grow as implementation periods are extended and system integrators (consultants) are required to stay on to address gaps in the software solution.

Clearly, these factors can result in a huge financial investment wasted, so it is vital to use experienced professionals in the system selection process. If a company specifies that it needs an inventory management system that tracks its entire supply chain, for example, a professional with knowledge of the industry can inform the company about leading industry practices and ways it might do things differently to align more closely with high performers. Leveraging this type of knowledge often results in realizing the full benefits of a software solution. It can also lead to savings in time and money and enhance a company's operational processes.

The What this means for your business

# A thorough selection process paves the way to competitive advantage

Businesses are complex organisms. From the production line to sales representatives in the field to accounts receivable professionals in the back office, a company often needs help automating and streamlining its interlocking processes. Enterprise systems offer operational and strategic advantages to companies that employ them; a thorough selection process is imperative to choosing the right system.

A structured selection process can reduce risk of failure. It can reduce the cost of implementation and motivate employees to support the new system by getting them involved in the process. Often, businesses can't do it themselves. By using professionals with industry knowledge and experience in complex software systems, companies can leap ahead of their competitors.

A company needs to invest time up front to comprehensively select a system solution that meets its business needs. By doing so, a company can leverage its finely tuned software systems to enhance operational processes and avoid needing to replace or substantially alter its system. Just as a company doesn't start new product lines or enter new business markets without carefully weighing the costs and benefits, the decision to choose an enterprise-level system also should be given careful consideration. A thoughtful, measured selection process can mean the difference between becoming an industry leader or a company struggling to meet its current and future business needs because its system fails to perform as expected.



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topic mentioned, please contact.

Bob Zukis  
Partner  
213.509.6666  
bob.zukis@us.pwc.com

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