



VENDOR SELECTION: WHERE TO BEGIN?

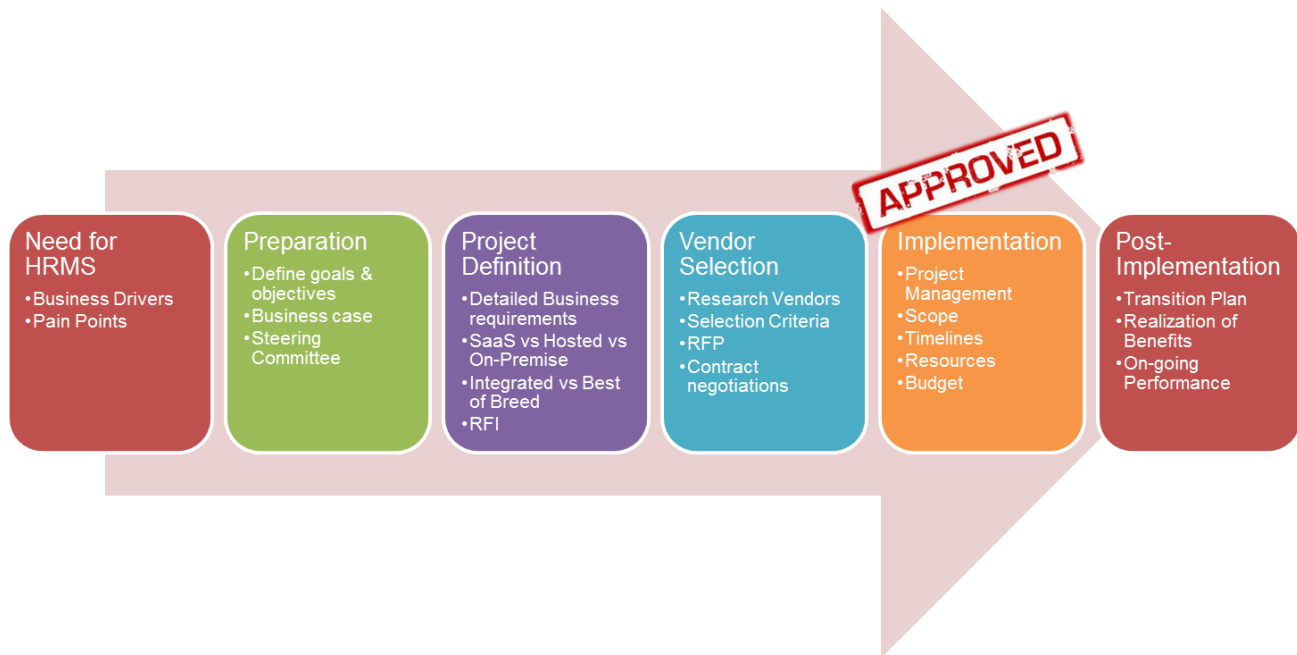
INTRODUCTION

Selecting the right software for your organization, regardless if it's a best-of breed HR or Sales application or a full-fledged ERP system, can be a daunting task. Many find it overwhelming thinking about the various aspects to consider about the software itself such as functionality, user interface, scalability, ease of use, integration with other software, and so on. But there are some decisions that can be made upfront that are more related to business goals than software functionality that simplify significantly the vendor selection process. Having a clear understanding of what an organization is trying to achieve can help define guidelines for decision-making and expedite the over analysis of the software options available.

"The absence of alternatives clears the mind marvelously"
Henry Kissinger

THE BEST PLACE TO START IS AT THE BEGINNING

The process for implementing software is fairly standard across the industry. Each consulting firm places its own stamp by re-naming specific steps or procedures, but in the end the project lifecycle looks like the steps in figure 1 below:



Vendor Selection is not until the 4th step in the process, and its success is dependent on the quality of information provided by the three prior steps. Starting from the beginning, and doing it right, is the key to successfully selecting the right software vendor.

IDENTIFYING THE NEED

Identifying the need is to pin-point the major pain-point to the organization that is causing them to consider the new software solution. The answer to the question “what problem am I trying to fix” will define the path to selecting a software vendor. This question should be answered by the executive leadership of the organization or of the area looking to implement the software. Typically, the need is linked to a number of organizational pain points identified by middle managers, that may or may not be business critical. The true need may look like:

- Unable to deliver the necessary financial reports to shareholders
- Can't meet legal compliance requirements.
- Cumbersome systems are impacting ability to compete.
- Reliance on manual processes
- Scattered and unreliable operational data
- Unstable systems that disrupt business execution

In cases where more of one need is identified, they should be prioritized so that when the two needs conflict with each other, the decision on how to move forward is clear.

To illustrate how clarity on the end goal helps with the software selection, let's compare the situation when the need is focused on current systems are impacting the inability to compete vs the disruptions to business execution due to unstable systems and infrastructure. In the first scenario, the software selection process will need to consider functionality needed to improve business execution, which in turn will drive the need for clear and detailed business requirements. The first scenario takes more time as the organization will have to consider various vendors and decide on which solutions best meets the requirements. In the second scenario, the main driver could be that the current software suits the organization just fine, but it hasn't been upgraded for years, is no longer supported, and the hardware is running on could fail at any time. In this case, the organization could look at an upgrade with the existing vendor and bypass the vendor selection process altogether.

DEFINING BUSINESS GOALS AND OBJECTIVES

Once the need for the new system has been clearly identified, the next step is to define clear business goals and objectives. This is taking the pain point(s) driving the software selection, and answering the question: “What are we trying to achieve”. The purpose of clear goals and objectives is two-fold:

1. Set guidelines for decision-making throughout the selection process
2. Establish metrics for success

Goals are the higher-level vision of what the organization wants to accomplish. It can be as simple as turning the pain-point into its desired outcome. Goals for the pain points mentioned earlier could be:

- To provide shareholders with standard financial reporting
- To attain accreditation for meeting compliance requirements
- To achieve industry benchmarks for product delivery.
- To automate business processes
- To establish a single-source Single source of information
- Need to mitigate the risk of aging technology and infrastructure

Similar to the definition of the Need, Goals and Objectives should be set by the executive leadership to provide a clear vision of the desired end result.

Objectives are specific targets to be achieved to reach to overall Goal(s). Objectives need to be SMART (Specific, Measurable, Achievable, Relevant, and Timely). This process takes time and it requires that an organization really dig deep into the purpose for the software selection. It is a common mistake to skim-over the process of making objectives SMART. Not setting SMART objectives sets the stage for ambiguous direction and decision making throughout the vendor selection process, and ultimately can lead to the selection of the wrong vendor.

An example of how SMART Objectives can drive the vendor selection process can be seen in the scenario where the main goal is to provide adequate financial reporting to shareholders. A SMART objective to support this goal would state:

- To deliver a summary report of revenue by product line within 3 months of go-live

This objective would identify business requirements that the selected software would need to support: the ability to track revenue by product line and business analytics to support summary reporting. These two requirements would then be used to facilitate the selection of the software vendor that can support this functionality

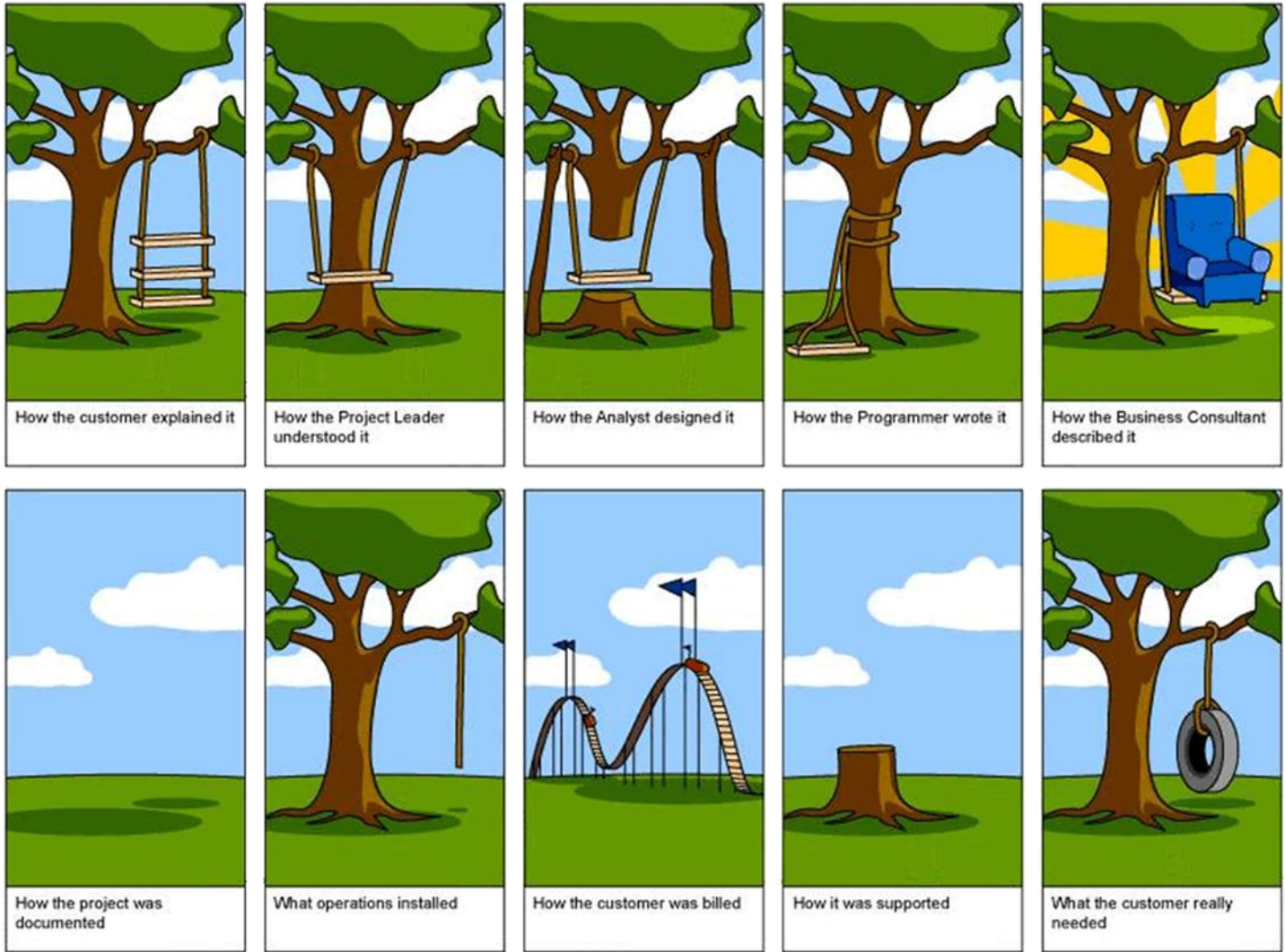
If the same objective, but not SMART, could be stated much in the same as a goal:

- To deliver a financial summary reports

In this case, potential vendors would be assessed only on their capabilities for analytics and the need for product-level tracking would not be identified upfront. Valuable time and resources could be spent evaluating, and even selecting, a vendor that does not the ultimate needs of the business.

DEFINING DETAILED BUSINESS REQUIREMENTS

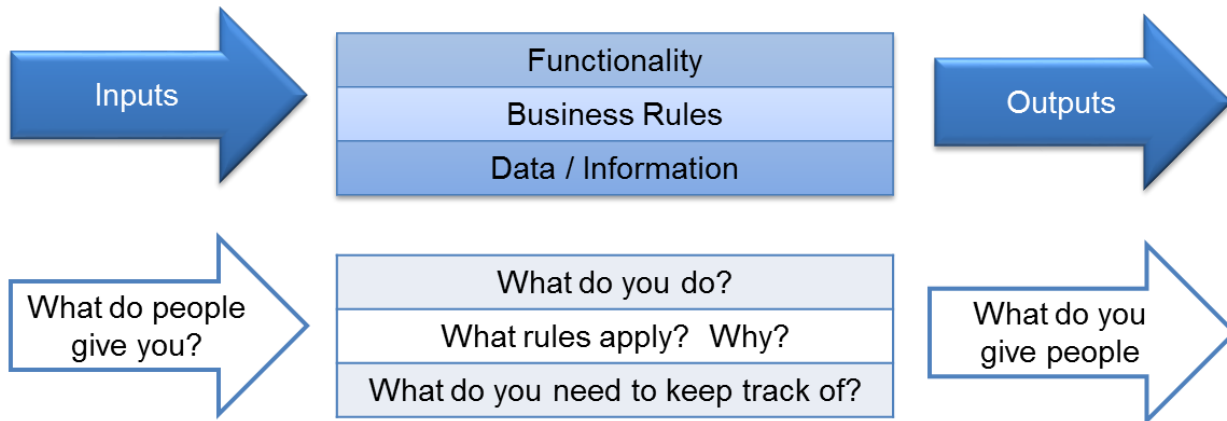
The importance of detailed business requirements to select a software vendor cannot be over emphasized. The business requirements are the basis for communication with potential software vendors and can quickly help to vet those that are a good fit for your organization and those who are not. Similar to establishing SMART Objectives, it takes a lot of hard work to get business requirements right and it would be time well-spent to extend timelines to ensure they properly communicate what you need. The cartoon below depicts the challenges with communicating requirements:



There are plenty of studies that support the role of business requirements in the success of a software implementation project, yet many organizations do not enlist the help of a professional Business Analyst to help with this process or let the software vendors “pull it out of them” as part of the vendor selection process. The latter is a risky proposition as software vendors are ultimately trying to sell software and look for only those requirements that they can support.

PROCESS FOR GATHERING BUSINESS REQUIREMENTS

The process for gathering requirements needs to look at business processes and analyze the various components that are critical to run the business and should be considered as part of the software selection. The figure below depicts the components and the questions that needs to be asked in order to gather sufficient details:



It is important that those involved in gathering business requirements do not document intended solutions as opposed to requirements. When a solution is captured as a requirement, it limits the options available to the organization to meet that specific need and it may drive higher costs and complexity. For instance, the following is a solution disguised as a requirement:

- To have a red X next to an expired credit card number

This would drive the software evaluation to look for functionality that can deliver a red X next to a credit card, which could require customization and additional cost. The real business requirement is:

- To visibly identify expired credit cards

There are multiple ways in which this requirement could be met – via bolded letters, a warning message, and even a red X. In this case the difference in outcome sounds trivial, but they can significant when looking at interfaces and custom functionality.

It is also important to differentiate true business requirements against the current mode of operations. There may be business processes and procedures that exist only as a result of limitations of the current software or due to outdated business practices that are no longer relevant. These requirements should be vetted so they do not become part of the evaluation criteria for the new software.

DECIDING BETWEEN INTEGRATION OR BEST-OF-BREED

Once the detailed business requirements are gathered and documented, the first major decision in the vendor selection process is to choose between a Best-of-Breed or Integrated solution:

Best-of-Breed Systems are designed specifically to address the needs in specific functional areas. They offer richer functionality, and may be industry-specific. These applications may support Human Resources Management, or focus on Sales, or Customer Relationship Management (CRM).

Integrated Systems are also referred to as Enterprise Resource Planning (ERP) systems. They provide a number of applications (or modules) to support multiple functional areas such as Finance, Purchasing, HR and so on. Integrated systems typically have more generic functionality aimed at a wider audience but greater integration between the applications/modules.

This is a significant decision as it immediately directs which software vendors should and should not be considered. It is also a corporate-wide solution and it cannot be made by an individual or a department in isolation. The decision needs to be aligned with:

- Goals and Objectives
- Business Requirements
- Corporate technology roadmap
- Business growth projections
- Other business initiatives

The table below summarizes the advantages and disadvantages of each approach:

	Integrated	Best of Breed
Advantages	<ul style="list-style-type: none">• One supplier to deal with• A unified interface, consistent operation across various functions• Seamless data flows. Single point of entry.• Minimal integration work.	<ul style="list-style-type: none">• Specialist - you'll be buying into their specific knowledge of this specific function• Less IT intensive implementations and maintenance• Faster implementation due to smaller scope
Disadvantages	<ul style="list-style-type: none">• Can be cumbersome and complex to use and to understand• Will need to give-up functionality in favour of integration and data flow.• More complex Implementation and upfront costs• May be too complex for smaller organizations	<ul style="list-style-type: none">• Integration with other systems can be complex, ineffective, and costly.• Multiple points of entry for data.• Suppliers / vendors are often small and may not understand needs of large organizations.

SOFTWARE DEPLOYMENT OPTIONS

Another key decision that will drive the software selection process is the deployment option. Will the software be “in the cloud”, will the organization manage and control the software, or will it be somewhere in between?

Software-as-a Service (SaaS): SaaS offerings are subscription-based, off-site models. They trade ease of maintenance for less flexibility to customize. In its purest form, SaaS solution would have all customers in a single version of software.

On-Premise (Traditional): On-premise models install the software on-site, with the organization owning the software, including its customization and maintenance. This model requires investment in IT infrastructure.

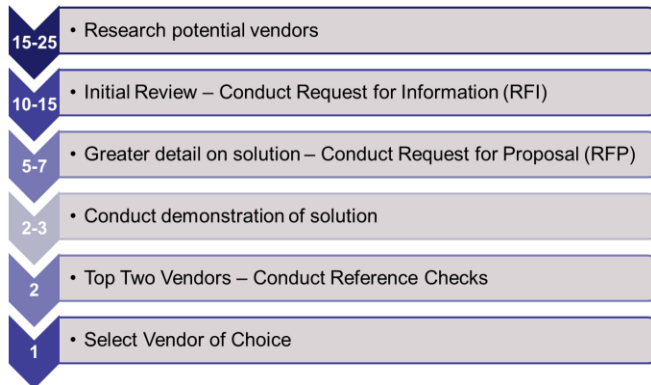
Hosted (Hybrid): This “in between” model allows for a customer-specific version of the software to be maintained off-site. It is generally subscription based and offers flexibility to customize without the need to invest in IT infrastructure.

The table below compares some areas of consideration between SaaS and On-Premise deployments

	Software-as-a-Service (SaaS)	On-Premise (Traditional)
Implementation	Shorter cycle but increased business demands on change aspects	Longer cycle due to technical and infrastructure components
Upfront Costs	Only costs of monthly /quarterly subscription and temporary hardware	Higher costs due to hardware & software licenses
Total Cost of Ownership (TCO)	Slightly lower in long-term (7-10yrs) No asset ownership	Slightly larger in long-term (7-10 yrs) Asset ownership
Upgrades	Controlled by vendor. On-going demands on customer to test and keep updated	Controlled by customer. May utilize down-level software.
Customization	Limited	Flexible
Integration	Very challenging. Limited ability to tailor integrations and working with software vendor directly	Integrations can be customized to system needs. May still require working with software vendor.
Data Security	Controlled by software vendor	Controlled by customer
Operational Transparency	Little visibility into system health and vendor (business) health.	Software owned and managed by customer. No impact
Organizational Change	Significant change impacts due to limited ability to customize software. Business must adopt software processes.	Less change impacts if software customized to support current business practices.

SELECTION CRITERIA

There are a number of categories for the evaluation of a software vendor that need to be incorporated before a final decision is made.



These categories include: Product Functionality, Product Cost, Service and Support, Technology and Architecture, Security, Supplier Longevity and others pertinent to the specific organization. It is important that these criteria be evaluated through various mediums, including vendor meetings, On-site demonstrations, and customer references.

REQUEST FOR PROPOSAL (RFP)

The Request for Proposal is used to receive a detailed proposal from different suppliers prior to purchasing the software. Here is where all the detailed work establishing SMART objectives and detailed requirements come to fruition. The vendor's responses to the RFP should provide all the required information to make an informed purchasing decision including:

- Scope (which requirements they can meet)
- Implementation Timeline (how long until go-live)
- Design Information (functional and technical specifications)
- Budget (costs for both software and implementation)
- Vendor corporate and financial information

The evaluation of the RFP responses should be a structured process to compare responses and demonstrate impartiality in the evaluation process.

SOFTWARE DEMONSTRATIONS

Part of the evaluation process needs to incorporate a well-organized, scripted demonstration of how the software would execute processes for your business. These demonstrations should use data that is specific to your business operations and they should be transacted live with key stakeholders in the room. Seeing functionality first-hand will help solidify which vendor can best meet your business needs and minimizes miscommunication and surprises down the road.

CONTRACT NEGOTIATIONS

The last step in the Software Vendor Selection process is to establish a contractual agreement between the vendor and the organization. There are two contracts that must be negotiated:

1. Software Contract
2. Professional Services Contract

Software Contracts deal with the costs of licenses or subscriptions and define the terms for these costs. There may be various license / subscription types depending on level of access and modules accessible. These contracts also contain maintenance fees, support fees and standard-level-of-service agreements. Payments for SaaS contracts normally start as soon as the software agreement is signed, prior to software implementation. The cost for licenses are often deferred until after the software is implemented.

Professional Services Contracts are used to define the parameter and costs for implementing the software. The professional services may be provided by the software vendor itself or it may be provided by a Systems Integrator (SI) who has technical expertise with the selected software. Professional Services Contracts need to be carefully negotiated to minimize risk. These contracts can range from a “Fixed Bid” contract where the vendor is paid a pre-set amount regardless of timeline and resources, to a “Time and Materials” contract, where it’s “pay as you go” for each resource for the duration of the project. Regardless of the contract type, the contract should clearly state:

- Scope: Which business requirements will be delivered
- Timeline: Detailed timeline for the various aspects of the implementation
- Resources: Named resources assigned to complete the software implementation

SUMMARY

In order to successfully navigate the software selection process, it is important to clearly identify the problem that needs to be fixed by the software, establish clear goals and SMART objectives, and gather detailed business requirements. If these steps are done correctly, an organization will be better equipped to make a call between integration or best-of-breed solutions, and select the right deployment model. The detailed business requirements with structured selection criteria form the basis for a successful RFP process. The final decision should be based on detailed software demonstrations, reference checks, formalized with signed contracts for both software and professional services

“What we see depends mainly on what we look for.”

John Lubbock

ABOUT SURGE ERP

SURGE ERP Consulting consists of a team of highly experienced Management Professionals who help their clients achieve their business transformation goals through the use of technology. SURGE guides their clients through the process of selecting, implementing and maximizing software tools including best-of-breed applications and Enterprise Resource Planning (ERP) systems, either "on the cloud" or on premise. SURGE is not aligned with any single software vendor and can be completely impartial when facilitating the selection process.

For more information, visit their website at: www.SURGE-ERP.ca

