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Description:	Background on system selection and related risk, as well as some insights into the industry.
Objective:	<ul style="list-style-type: none"> • Background on the system selection process and related risk; • Gives the user insights into the enterprise system supply chain;

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1. System selection considerations

1.1 Always remember why you are here

If you remember one thing, remember you are about to embark on a process of business improvement, adding value to the business, not a system selection and implementation. The system implementation makes this business improvement possible, the system selection makes sure you select the right system to implement.

1.2 System selection and risk

The nature of systems projects brings risk. These projects can involve complex technology and impact functions across the organization.

Risk in systems projects is a function of structuredness:

- When considering risk, consider the inherent structure of the outcomes required.
- **High structure** means the outcomes are fixed, there are given objectives and goals, things can only work in a certain way.
- **Low structure** means there may be more than one answer or a number of variables affecting the outcome. Secondly, the complexity of the technology will also affect the outcome.

Enterprise systems by their nature may involve numerous geographic locations, run over a number of networks and handle a number of processes, and thus can be considered complex. In addition, people are involved with processes that may change, meaning the outcomes required also generally have low structure. Finally, risk will increase with the size of the project.

The following equations show these interrelationships:

High structure + simple technology = low risk

Highly structure + complex technology = medium Risk

Low structure + simple technology = medium risk

Low structure + complex technology = high risk

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Enterprise systems involve risk to the organization, and can impact on organizational efficiencies through mismatched processes, system performance issues or even result in organizational failure through non availability of information, processing and internal controls. Risk is present in these projects, it is matter of how the risks are identified and managed which will help deliver quality outcomes.

1.3 Why do we need to do a system selection

System selections were in demand during the late nineties and early 2000 with Y2K threats and rapidly evolving technology offering ever-increasing efficiencies.

Most organizations have now been through at least one selection and implementation unless they are new and rapidly growing, in which case they would have outgrown their initial start-up systems and be seeking their first enterprise type system. It is common for organizations to change or drastically upgrade their systems every 3-5 years on average.

Making the right selection is however still as important as ever to an organization. Why, you may ask? Keep in mind the following:

- Most enterprise system vendors will make assumptions about business and management philosophy as well as business practices. You are essentially buying that vendors view of the world in terms of best practice;
- The enterprise system has been built using a certain logic in its processes, this logic will be imposed on your organization once the system is implemented;
- The enterprise systems capabilities and requirements will have to be matched with your organizations existing processes, policies and procedures;

You are attempting to select a system, which will match your organizations view of the world, and potentially deliver competitive advantage into key processes, while supporting other more common processes.

It is thus important, for all these reasons to get the selection right!

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1.4 Is there any good news?

As these enterprise systems have evolved in recent years, their capabilities and processes have become more common, enabling those doing system selections to focus mainly on where they can differentiate or get competitive advantage in the market.

The effort required to assess the business needs around these common processes, for example the general ledger maintenance or accounts payable process is a lot simpler, as most of these systems will provide similar process capability and related electronic workflow. In most organizations the accounts payable process will not give you competitive advantage, it just needs to be done in the most efficient and effective way possible.

In processes like customer fulfillment, customer management, billing etc. there might well be areas that can differentiate the organization and provide competitive advantage. This is where the focus of the system selection should be.

Selections have become somewhat easier and more efficient when dealing with the more common processes. However, as business models and competition increases, so the unique or differentiating processes have become more complex from a system selection perspective.

1.5 The System Selection

There are generally two forms that system selections can take. These are:

1. Understanding unique or differentiating processes that will create competitive differentiation or some other advantage and finding suitable technology to deliver these processes.
2. Generally in larger organizations, centralizing certain functions such as payroll or accounts payable to gain efficiencies and increase control are a key requirements, so selections are based on distributed processing capability and the strength of internal controls to manage these processes.

Key to conducting any system selection is ensuring that:

- there is senior management commitment;
- strategic and business needs are clearly understood;

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- appropriate vendors are identified;
- the proposal process is managed and evaluated effectively;
- proof of concepts are conducted;
- there is a robust contract negotiation process.

2. Enterprise systems considerations

2.1 Overview

During the late nineties, there was a proliferation of vendors and technologies, which has largely consolidated in recent years.

To make classification simpler we will consider the following types of software, this is not meant to be a definitive or complete list, but has been compiled for the purposes of this service:

Financials		Financials based, usually includes general ledger, accounts payable and accounts receivable and maybe some electronic workflow.
Enterprise Resource Planning	ERP	Integrated systems, with modules capable of managing the entire organization.
Customer Relationship Management	CRM	System focused on customer experience and management, ensuring a single database of customers.
Business Information Systems	BIS	Reporting systems that draw data out of the above systems and report in a number of ways and formats.
Developed applications		Systems developed specifically for an organization to manage its processes. Usually customer delivery focused.

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Best of breed		Might involve a number of the above systems linked together to take advantage of each ones individual strengths or capabilities.
Web, internet or ASP	ASP	Systems that are delivered through an internet browser. In certain cases the software and data is hosted by a third party offsite and the usage is paid for monthly.
Web enabled		Can relate to a standard enterprise system, which can be accessed via the internet through a standard browser.

As organizations grow, they usually follow a common path. Even when the technology they acquire can deliver on a number of the areas below, the management needs still tend to follow this path.

1. Initially a customer focused system, which is key to revenue generation. (Dealing with the customers and making money)
2. ERP system, may replace or be integrated with 1. in addition, allows efficient capture and processing of transactions across the organization. (Needing to become more efficient in the related transaction processing)
3. BIS system to draw the detail data out of 1. and 2. in addition, provides relevant management information. (Needing to access and make sense of all the data which is now available.)
4. CRM to manage customer relationships or experience, or better manage the organizations sales force. (Need to manage customer data better and integrate this to our other systems.)
5. Smarter reporting using balanced scorecards etc. (Ongoing improvement)

2.2 Some Trends

Some current trends observed. This is not intended to be a complete list or an industry forecast, just some interesting things that are happening with respect to organizations and their technology:

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- Increase in the use of BIS systems, once organizations have realized the focus of ERP systems is processing/ data, not reporting/ information;
- Challenges in making sense and reading all of the newly available data and reporting;
- In past years the move away from developing applications to purchasing off the shelf systems;
- Offsite hosting, where the entire system is hosted with a third party and made available to your organization via a dedicated network;
- ASP or application service provider via the web, utilizing an application made available via the web, requiring public internet access to access it;
- Increasing mobility, especially with respect to the sales force and management reporting;
- Increasing data collection points including things such as scanner, RFID tags which allow for increased data collection and more accurate tracking.
- Increased need for security and data protection, especially as it relates to customer data.
- Increasing regulation around data privacy.
- The need to have a web presence and web enabled systems to extend your organization into cyberspace.

2.3 The Vendors

Enterprise software and vendors can generally be categorized into the following three markets. The size of entities fitting into each may vary by country but the categories generally remain the same.

1. Large organizations
2. Middle market organizations
3. Small to medium organizations

1. Large Organizations

The large end is traditionally dominated by the likes of SAP and oracle. Oracle now includes Peoplesoft and JD Edwards, and organizations using

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these systems generally operate globally, across a number of time zones, have a number of entities, multiple currencies and may have very complex regulatory or industry related processes. Some of these vendors are now also beginning to focus on the middle market.

2. Middle Market organizations

Microsoft has more recently dominated the middle market. Microsoft purchased the Navision (Axapta) business, which has a large install base predominantly in Europe, and the Great Plains business, which has a large install base in the United States.

These systems have some of the attributes of the larger systems but generally cannot compete feature for feature and are not built to withstand the transaction types, volumes and sizes that the above systems can process. They also on average cost less and are easier to implement and maintain. These vendors are always trying to move into the large organization space.

3. *Small to Medium Organizations*

These types of organizations generally require simpler systems, which are network or PC based, with a small number of users in a single currency and usually on some sort of proprietary database.

Due to their size and focus, features and reporting capabilities can be somewhat limited, however they do offer in most cases robust, easy to install solutions that run many small organizations today.

3. Structure of the Industry

The industry is always striving to build new business models and supply chains, and thus continually evolving. Generally, the following industry structure operates around the world to sell and deliver these systems.

3.1 Larger Vendors

In the past many of these vendors had implementation partners who implemented their systems while they sold the licenses and provided in certain cases the support and development of the application. Many of these partners were the large accounting firms, consulting divisions.

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In recent years, many of these larger vendors have built implementation capabilities of their own in their search to continue growing revenues. Many of the larger accounting firms who were the implementation partners, found this role growing in complexity due to independence requirements imposed on them through their attest relationships.

When implementing larger systems, in most cases now, the larger system vendors will also provide the implementation services. The implementation services cost will depend on the skills and number of resources required. It is common for the majority of these resources to come from inside the business buying the system. This helps keep costs down and ensures the transfer of skills to the organization, as well as buy-in to the system. Large implementations also generally involve change management as well as industry process and process redesign specialists.

3.2 Middle market Vendors

In the middle market, there are for obvious reasons, more deals required to make up revenues and they are generally smaller deals, thus most vendors in this space will have implementation partners or value added resellers.

When buying from a vendor in this space, generally you may deal with the vendor and the reseller depending on the size of the deal or just the reseller if it is a small deal. Resellers get training from the vendor and are licensed to implement their software, thus there are certain quality and training requirements.

When selling the software the reseller will quote a recommended price and will receive up to, and around 45c in the dollar if sold at that price. Any discounts reduce this margin to the reseller. Reseller software margins can differ depending on the volume of sales they provide, the minimum would generally be around 20%.

The reseller then also provides support, which is priced up to and around 20% of the recommended price per annum. This will include certain support calls with limitations and basic software upgrades. More complex system upgrades are generally not included.

The software license fees are usually paid up front and the software vendor will receive the cash before releasing the software keys. The reseller than

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provides implementation services using a methodology developed by the vendor to implement their system. Generally, this implementation methodology makes provision for simple process review and hardware and software installation. Things like change management and more complex process redesign are often excluded.

The middle market is also generally more competitive and price sensitive, so what are considered unnecessary services are excluded upfront to keep fees down. In many cases, implementation services are more like installation services and can include little configuration or process work.

Software license costs are usually difficult to compare between vendors as they charge on different bases, such as modules and number of users for example. Vendors do not have exactly the same modules with the same functionality. They are all called different names and incorporate differing levels of functionality. User numbers will also play a part, each vendor will have different user types and user pricing. Generally, **the more users you buy, the cheaper the cost per user.**

Implementation services are generally priced based on a daily rate, depending on the resources and their experience and the number of days to implement the system. The reseller will require a contract to be signed for these services prior to starting. Implementation services are not usually paid for upfront.

Support is generally also paid in advance, for the first twelve months at the time of signing the contract.

3.3 Small Vendors

Smaller systems are in many cases sold at a retail level and require minimal technical capabilities to install. The processes are set and given most of the users are small businesses, tailoring the processes to the software processes is not difficult or requiring large scale change processes. A single user system running on a PC can in most cases be installed and set up by the user themselves and maintained on an ongoing basis. Support will differ for these systems and may or may not be included in the purchase price.

Implementation services are provided in the form of training and upgrades, which are annual and usually require a subscription.

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4. Final considerations

Before proceeding, consider some of the following questions and ensure you keep the answers in the back of your mind as you proceed through the system selection:

1. What does our organization do that is unique or specific, that technology will enable and will give us some advantage over the competition?
2. What size system requirements do you have, large, middle market or small?
3. What key risks are there in this project that you will need to manage which are glaringly obvious to you right now?
4. Can you buy the software on demand through the internet instead of buying it outright?

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