

<b>Service:</b>	System selection online
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<b>Description:</b>	Detailed overview of the system selection methodology.
<b>Objective:</b>	<ul style="list-style-type: none"><li>• Educates the user on the system selection methodology detail.</li><li>• Shares real examples from case studies.</li><li>• Indicates timeline to the user by phase.</li></ul>

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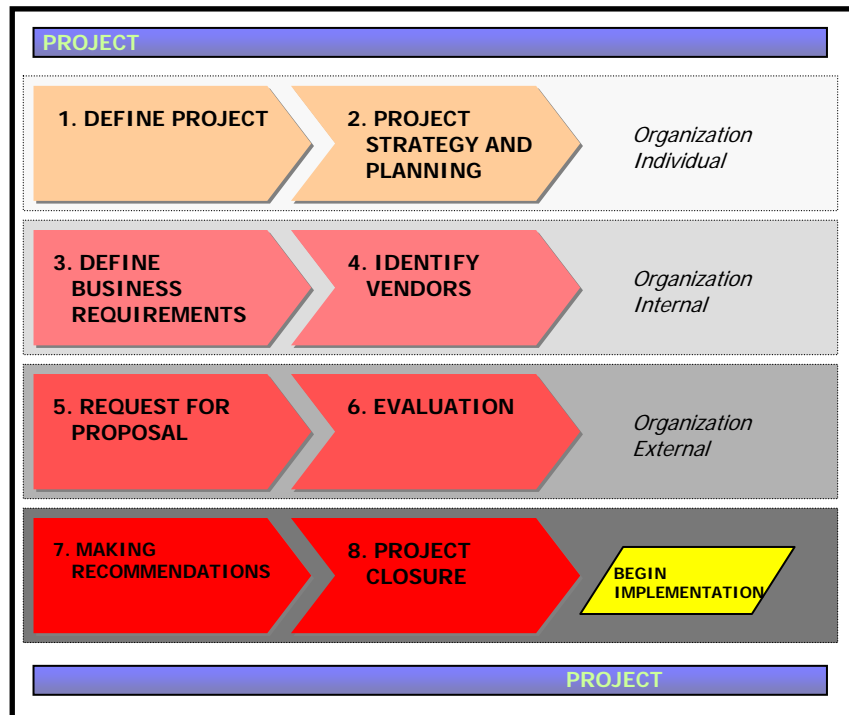
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# 1. The System Selection Methodology - Overview

## 1.1 The system selection methodology – visual overview

The system selection methodology can be illustrated as follows, to see how the eight phases fit together. It is also important to note the comments on the right hand side and the implications of these.

Table 7



By looking at the phases his way, the following becomes evident:

- Phase 1 and 2 are clearly internal and can be done by the individual responsible for the project;
- Phase 3 and 4 are still internal but will require a project team;
- Phase 5 and 6 require interaction with external parties;
- Phase 7 and 8 are about finalizing and reporting;
- The phases are supported by sound project management and project governance processes.

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Keep this visual in mind as you work through the methodology detail in the next section:

## 1.2 System selection actions

The system selection methodology is a series of phases supported by steps and actions to allow the objectives of the project to be met in the most efficient, logical and practical manner.

The system selection methodology has been developed from experience and research in conducting these types of projects, and attempts to keep the process short, logical and results focused.

The actions that were listed in the previous project phase can be consolidated into eight distinct phases. Each phase represents a grouping of actions to achieve a milestone or a decision-making point including go/ no go decisions. Consider the milestones and decision-making requirements of your organization while reviewing these.

Table 6

PHASE	DESCRIPTION
<b>1. Define project</b>	Identification of the need for a new system
	Senior management commit to investigating
	Developing the Business Case
	System selection project approved
<b>Milestone:</b> <b>Decision:</b>	Approval to start system selection project To proceed with the system selection project
<b>2. Project strategy and planning</b>	Developing an initial project plan and timelines
	Project management and administration set

PHASE	DESCRIPTION
	up
	Project budgeting, both cost and time
	Communicating the project appropriately
<b>Milestone:</b>	Formal start of project with allocated resources
<b>Decision:</b>	To allocate appropriate resources required
<b>3. Define business requirements</b>	Understanding the future strategic direction of the organization
	Understanding future key strategic requirements
	Understanding key business requirements
	Understanding any technology platform requirements
<b>Milestone:</b>	Completion of business requirements phase
<b>Decision:</b>	Confirmation of business requirements To approach the external market
<b>4. Identify vendors</b>	Investigating and short-listing of potentially appropriate vendors
	Preliminary investigation of selected vendors
<b>Milestone:</b>	Completion of vendor identification phase
<b>Decision:</b>	Finalization of short-list
<b>5. Request for proposal</b>	Developing the request for proposal (RFP)
	Taking the RFP to the selected vendors
	Managing the RFP process through to vendor submission

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PHASE	DESCRIPTION
	Collection and collation of responses by due date
	Developing/ agreement on appropriate scoring methodology
<b>Milestone:</b>	Completion of RFP process
<b>Decision:</b>	Complete approach an responses from external market
<b>6. Evaluation</b>	Reviewing vendor responses
	Scoring of responses
	Product demonstrations
	Proof of Concept for specific requirements
	Reference checking
<b>Milestone:</b>	Completion of vendor evaluation
<b>Decision:</b>	Vendor short-list to proceed with
<b>7. Making recommendations</b>	Joint development of implementation plans and budgets with vendors \$
	Finalizing implementation plans and timing \$
	Negotiating the contract and terms \$
	Finalizing resource requirements \$
	Finalizing Pricing \$
<b>Milestone:</b>	Completion of vendor selection process

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PHASE	DESCRIPTION
Decision:	Final decision to proceed
8. Project signoff	Finalizing approvals
	Communicating the final decision
	Filing project documents
	Contract Signing

Any methodology is of-course always underpinned by sound project management and project governance.

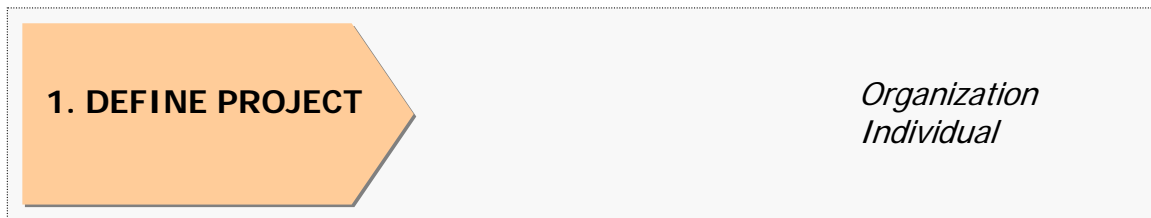
Certain organizations may require additional actions depending on their specific circumstances or industry, but the eight key phases should remain unchanged. Should there be additional actions your organization requires, these should be included in the project plan detail, rather than attempting to modify the above table.

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## 2. System selection methodology – detail

### 2.1 Phase 1 - Define the project

This phase is about clarifying objectives and getting the relevant approvals for the project. Depending on the size of your organization, this phase should require no dedicated resources or project structures yet. The activities would be conducted throughout the normal course of business:



**Key objective:** Project Approvals and the business Case signed off

*Estimated time: Within the normal course of business, excluding the business case*

Key considerations for the Define Project phase include the following:

- Clear understanding of the need for the new system and the associated objectives;
- Clear understanding of how this translates to the system selection project;
- Clear understanding of the business case if there is one, or identifying potential benefits from the new system before starting;
- Ensuring the necessary approvals are in place to begin the project;
- Understanding management's expectations from the system selection project.

#### 2.1.1 Define the business case

All investments require a return. Investments in technology should be no different. The challenge in preparing a business cases to measure this is identifying and measuring actual future benefits and the level of effort and cost required to do this.

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Benefits can either be classified as either quantifiable (measurable) or non-quantifiable (non-measurable). **Identifying non-quantifiable benefits is easier and should always be done.** Measuring accurate and realistic quantifiable benefits can be more challenging and sometimes significant benefits are achieved where least expected within the organization.

*Relevant Experience: In implementing an automated expense claim system, the business case showed the key benefit in the reduced number of staff required to manually process the expense claims of 3000 employees. There were around 20 FTE's (full time equivalents) doing this manual processing. A year down the track some savings were achieved in this area, but the key and most significant savings were achieved through staff not knowing how expense claims were monitored and what internal controls were in place and thus improved behavior around claims. An example of this was the decrease in taxi claims over weekends. In addition there could be no, I'll authorize yours if you'll authorize mine type behavior and policies were easier to set and monitor.*

Typical examples of quantifiable and non-quantifiable benefits include:

Table 6

Quantifiable	Non quantifiable
- reduce stock turnover by 30%	- improved customer service
- cost savings of 22% of budget	- better decision making
- reduce reporting time to 1 day	- reduced fulfillment times
- reduce finance by 8 FTE's	- better information availability
- reduce stock outs by 10%	- improved process efficiency
- reduce bad debts by 10%	- real time information
- reduce credit notes by 30%	- reduced data redundancy
- increase sales by 15%	- improved internal controls

Unless a business case is specifically required by the Board of Directors or senior management at this stage, business case development can be a long drawn out process bringing more questions than answers around assumptions and accuracy.

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Keeping it simple at this early stage and revisiting the benefits or business case later prior to implementation in more detail is advisable.

This does not mean the business case should be ignored. Key system benefits should be identified and documented prior to beginning implementation and should be communicated to the final vendor to ensure they are aware of the expectations of the system. Identified benefits should ideally also form part of the measures of the project sponsor and project manager.

It is thus important to identify the key benefits you anticipate the system will deliver, and to communicate, discuss and document these. Once identified, these benefits should be front of mind throughout the selection process. If benefits are not identified and targeted upfront, the achievement of any benefits once the system is implemented will be random.

It should also be noted that potential benefits can change as more information becomes available, that is fine, keep documenting and communicating these changes to the appropriate project members and project sponsor.

In many cases the justification for the new system would already have been considered, key benefits identified and thus the need for the selection process to start. If this is the case, ensure you and the project members are familiar with the business case or previously identified benefits for the new system.

*Estimated time: a couple of hours to 3 months, depending on research and level of detail required.*

### 2.1.2 Project approval |

Ensure you have the relevant project approval before starting anything. Starting without relevant approvals can be embarrassing and in the worst cases result in disciplinary actions. Internal and external stakeholders can be negatively affected by this action.

*Relevant Experience: Some examples of where we have seen this and the outcomes:*

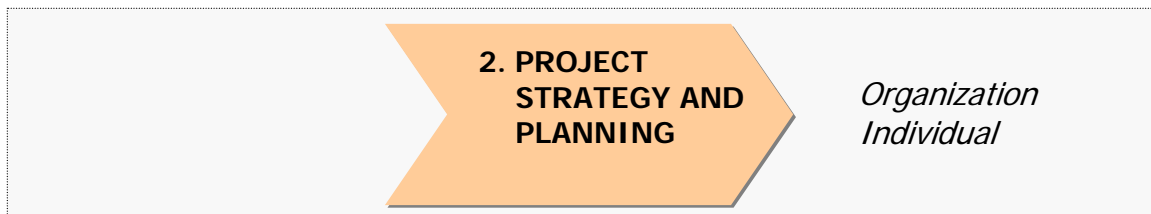
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- *Vendors contacted and proposals requested. After six months vendors got bid fatigue and when the approval was granted three months later to proceed with the selection, two vendors refused to propose, both of these vendors had great offerings.*
- *A CEO at a CEO luncheon was surprised and embarrassed to find out his organization was in discussion with a certain vendor for a large project he knew nothing about. The Chairman of the Board was also present and had a number of questions on internal controls and governance in the organization afterward.*
- *Vendors trying to build influencing type relationships at a senior level, only to find senior management are unaware of the discussions going on between them.*

If you are going to research the market to educate yourself before getting approval, ensure the vendors are aware of this, should you contact them. The world is sometimes a smaller place than you might think.

## 5.2 Phase 2 – Project strategy and planning

This is about planning the project before starting, getting solid project foundations into place, setting the strategy and supporting plans. This phase should require no dedicated resources or project structures yet, and could be done during the normal course of business.



**Key objective:** Setting the Strategy and initial project planning

*Estimated time: A couple of days excluding approval times, which usually delay the process.*

Key considerations for the terms of reference phase include the following:

- **Setting the strategy** for the project and developing an initial **project plan** to support this;

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- Clearly **identifying project participants** both internal and external who will be involved and documenting the project structure with some high levels roles and responsibilities by individual;
- **Defining any project processes** that may be required or other administration needs;
- **Signing off budget requirements** including time and resources, any external costs and any inter-departmental charges that may be required;
- **Communicating the project to internal stakeholders.**

### *2.2.1 Initial project plan*

At this stage a detailed project plan with accurate timings will be difficult to not only prepare, but also to commit to. This initial plan should ensure the steps necessary to complete the system selection project are identified and some broad timelines identified in which to complete the project. Once the project approach phase is completed these can be refined.

### *2.2.2 Communicating the project*

Keeping the organization informed on the project and developments is important to ensure buy in. Inappropriate or poor quality communication can result in frustration and the organization becoming disengaged due to the volume of useless or biased information. Under communication likewise can result in frustration and disengagement where people think they are being purposefully kept in the dark.

Ensure the communication is concise, regular and meaningful. Understand existing organizational channels and which will be the most effective for this type of communication.

### *2.2.3 Selecting the project team*

The size of the project team will depend on the organization and the following points should be taken into account:

- **Involve different business units or departments** in the organization as is relevant. At least the business units or departments impacted by the new system should have working representatives on the project team;
- Design a project structure with associated roles and responsibilities and communicate it.

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- The competency of the individuals on the team will correlate to the success of the project. **Select individuals you know and trust who are credible in the organization** rather than be assigned individuals who are not busy or “spare”;
- **Clarify and re clarify the commitments of the individuals on the team**, be clear on their work commitments and availability to the project. If the project warrants it, rather get resources internally or externally to backfill their existing roles than backfill the project roles. This will help ensure greater ownership and better outcomes;
- Understand the availability of individuals and plan accordingly. Month end is usually a bad time for individuals to be available from the finance function for example.

#### 2.2.4 Project administration

This area is often overlooked on smaller projects. Some suggestions however to make this run smoothly and to be aware of include:

- File structures
- File naming conventions
- Electronic filing locations
- Secretarial responsibilities
- Review processes
- Meeting protocols and times
- Contact lists for participants
- Scheduling, where certain individuals will have limited availability

### 2.3 Phase 3 - Define business requirements I

**This is a critical phase** and should be given a high priority. How well this phase is done **will ultimately determine the value of the system** to the organization. The right resources and effort must be applied to ensure business requirements are clearly understood, documented and agreed, before proceeding to Phase 4. Conducting this phase poorly will affect the outcome of the project.

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### 3. DEFINE BUSINESS REQUIREMENTS

*Organization  
Internal*

**Key objective:** Identifying and documenting business strategy and requirements

*Estimated time: This section is largely dependent on the number of stakeholders involved, the number of processes, the availability of key individuals and the time required to sign off the to-be processes. The minimum time we have seen this completed in is four weeks and the longest around six months.*

Key considerations for the define business requirements phase include the following:

- **Understand future organizational strategies** and if and how they might impact on the system selection;
- Identifying and **documenting key processes** in the organization and prioritizing these;
- **Designing new processes** where these will provide competitive advantage or the new system can facilitate efficiencies;
- Assessing technology requirements to support the new system and the fit with the organizational technology plan or strategy.

#### 2.3.1 Strategic direction for defining business requirements

In understanding the organization's strategic direction, consider the following:

- Review any recent media, internal communications or other documents that relate to the organizations future strategy;
- Read the strategic plan, if this is available;
- Meet with the CEO or their representative to discuss, and confirm once you have an understanding. Arrange further meetings if required.
- Note key strategic directions and any potential technology requirements at a high level. Examples could be international expansion, new service or product lines, new channels to market or a focus on a key part of the business such as automating the sales force;

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- Communicate the outcomes back to those interviewed and project sponsor.

*Experience: A company with a strong education business in one location embarked on the process of system selection. Mid way into the vendor selection phase, the Board of Directors released a strategy paper launching a second national business in 6-12 months and two new international operations within 18 – 24 months. This fundamentally changed the business needs analysis, as although the new operations were identical to the existing, there was a need for localization in the international operations to take into account local laws and compliance, as well as foreign currency, consolidation and a web based infrastructure to make roll out and upgrades much easier. As each new country would differ due to local requirements, a certain amount of flexibility was also required in the new system.*

### 2.3.2 Defining the business requirements

This is a critical phase and must get the right amount of attention and resources. If appropriate, due to the size of the organization and resource availability it is recommended that additional resources are obtained to assist with collecting and analyzing the necessary information required for this Phase, including:

- Identifying all business processes;
- Identifying processes impacted by the new system;
- Identifying and prioritizing unique and general processes
- Documenting any key features, issues or requirements of general processes;
- Documenting unique processes and analyzing them;
- Finalizing to-be processes, documenting them, communicating and getting sign off on all changes to the way the organization has always operated;
- Approval to approach vendor's with these needs in a request for proposal. Some of the information will be confidential.

Ensure business unit or department leaders and management with organizational credibility are involved in this process to get buy-in to any changes that will affect them.

Do not move forward until the to-be processes are signed off and agreed. In this process, everybody wants change as long as it does not affect him or

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her. Project team members might suggest change, which business unit leaders or department heads will reject. This can have significant impact later in the project if not signed off appropriately. It could also potentially affect system architecture and functionality requirements

Now is also the right time to revisit the business case, and review the proposed benefits against what the new processes will deliver as well as any unforeseen expenditure these changes may require.

*Experience: During this process with an organization in the financial services industry, they wanted to get best practices in place and all financial managers agreed to this. When each department was reviewed and improvements identified, the financial managers pushed back hard on any changes that would impact their departments on the basis that no one understood their business, onerous compliance requirements wouldn't allow change and that the way things were done was the way they had always been done. Needless to say, after six weeks the CFO who had wanted to introduce change capitulated to pressure from his finance managers and ended up with processes very similar to those existing at the beginning of the project with all the manual steps, except they were now officially documented. The finance managers all congratulated themselves on a job well done and the organization ended up with no change and no benefit to take advantage of a new system which was going to involve significant organizational investment.*

### 2.3.3 Understand any technology platform requirements

Selecting the technology platform can be either simple or complex. If it is simple, the vendor will have a preferred set of hardware and supporting software recommendations which are standard and which will fit with your organizations technology policies and support capability. It becomes more complex when new technologies or functionality is required to deliver on changed organizational structures, and these new technologies are a change from existing corporate policy.

Such decisions could include the operating systems, hosting arrangements, internet access, hardware, tracking, peripheral devices and databases. Selecting the platform might also become a fundamental change from the past in moving from internally managed systems on a network to externally hosted systems accessed via the internet.

Selecting the right technology platform is a project in its own right and should be considered in light of existing organizational needs, future organizational needs, the IT strategy and what the vendor recommends and

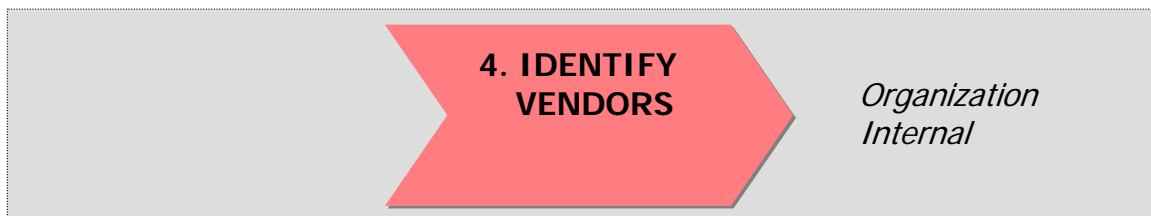
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what other organizations are using. We recommend getting specialist input if there is a fundamental change in the technology required from your existing platforms.

Changing IT platform can be expensive and should be considered carefully. It also increases the risk on projects of this nature.

## 2.4 Phase 4 - Identifying vendors

This is about finding the right potential vendors for your organization. Some of these might be obvious, some already known to you or recommended by peers in your network. For the rest, the internet and trade magazines are a good start.



**Key objective:** Identify a qualified list of potential vendors

*Estimated time: A couple of days, based on a couple of hours per vendor.*

### 2.4.1 Investigating and short-listing of potential vendors

While it might sound good to start from scratch with a Google search, understanding who is using what systems in your industry and looking in trade journals or magazines is a good place to start.

Remember you want the following in your potential vendor:

- Local clients
- Local support and/ or user groups
- Reasonable number of users in your region
- Reasonably mature technology
- Local references

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- Commitment to your industry for the unique processes
- Financially profitable and stable
- Professionalism and attention to detail
- Investment in research and development

**No more than five to ten vendors** should be selected at this early stage to investigate further.

Selecting a vendor who is looking for their first implementation or a vendor with new innovative technology or functionality may well result in reduced cost or some short to medium term competitive advantage, but should be well researched and managed, to take into account the additional risk of the vendor.

#### *2.4.2 Preliminary investigation of selected vendors*

The internet and discussions with peers will help here. The majority of vendors will have an easy to find website, some case studies and even some trial software or demonstrations on the website. Spend some time on the local and if applicable the international website getting a feel for the some of the items mentioned above. If information is confusing or minimal on the website, some contact with the vendor can be made, keeping it generic at this early stage. In addition reviewing message boards, blogs and any other relevant postings by users or ex employees will be useful. These are usually found with a simple search.

Once contact with a vendor is made, you will be on their target list and will need to manage their business development advances. Informing them you are in a system selection process and you will contact them at the appropriate time is important but do not under estimate their business development advances once they are aware you are in this process.

There is rarely any detailed pricing information available on the vendor websites, so at this stage trying to price the solution is difficult.

Communicate the short-listing of vendors to appropriate stakeholders and confirm there are no concerns from the stakeholders prior to continuing.

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*Experience: Some experiences in short-listing vendors have included the following:*

- The vendor website stated they had a local presence, only to establish they would have to fly in implementation resources and that all support was offshore, so site visits to resolve issues would also have involved flying consultants in from overseas, with scheduling required some weeks in advance.*
- After short-listing suitable vendors and being in the middle of the RFP process, the CEO heard about other suitable systems at a lunch and wanted to know why they were excluded from the short-list. In this case, the process had been robust and the particular vendor did not have the required functionality for managing foreign currency transactions, which was a critical requirement. The CEO was comfortable once this was communicated, but it delayed the project by a week.*
- A new vendor offered the software for no cost and implementation services at a reduced price to get their first client site, and wanted to make it a reference site for them. After it was established the vendor was local, had no parent company, the software not fully tested and that support was provided via mobile phone by the owner himself the risk was considered to high, even though from a cost perspective this was a highly attractive option.*
- After short-listing vendors and distributing the RFP, vendors not included on the short-list approached members of the Board of Directors, trying to use their relationships and criticizing the process. After communicating and presenting the process and outcomes to date, the Board member was satisfied and the impact on the perception of the vendor was negative, as they had omitted some relevant details about their capability.*

## 2.5 Phase 5 - Request for proposal (RFP)

This phase is about preparing the RFP and managing the interaction with the vendors during the period they have to respond appropriately, receiving back and collating their responses.



**Key objective:** managing the RFP process and ensuring quality responses to enable evaluation

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*Time: Depending on the sign offs required, the preparation of the document should be around 1-3 days, getting signoff may take weeks. The vendors will need a minimum of at least 2 weeks to respond, ideally around 4-6 weeks.*

### *2.5.1 Developing the request for proposal*

Working from a template is always easier, but keep in mind there will be some customization required, such as:

- Any organizational risk management or legal requirements;
- Organizational specific metrics;
- Process and functional specifics;
- How interaction will be managed;
- Timing of responses;
- Structure of responses.

Templates are provided in MyDelivery. This can be an informal or highly formal process.

### *2.5.2 Distributing the request for proposal and managing the vendors*

Again, this can be as formal or informal as required. From e-mailing a copy to the vendor through to the vendor attending a briefing and having to sign for a hard copy. Should distribution by email be decided, ensure the file is locked in some way such as a PDF to reduce the potential that unauthorized changes could be made.

Managing the RFP process is important from three perspectives:

1. To ensure that the vendors are clear on their understanding and do not misinterpret parts of the RFP;
2. To ensure that no one vendor gets undue advantage over another;
3. That should you realize there is an error or other issue, you receive this feedback quickly and deal with the issue appropriately.

### *2.5.3 Collection and collation of responses*

The more formal and detailed the RFP the more conformity in proposals and in many cases the easier it is to evaluate them. No matter what, vendor system strengths are usually up-front and in bold, and weaknesses kept deep

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in the detail. **In reviewing vendor responses, ensure you can get into all the detail.**

Ensure responses are submitted on the date specified. Late submissions can sometimes give an indication of the commitment of the vendor team you are dealing with, but where there is an acceptable reason for being late, exclusion on the this basis does not benefit you, as long as it has been communicated beforehand and other vendors will not feel disadvantaged and most importantly it does not delay the selection process.

You will be comparing the vendor responses. Each response will generally have its own unique structure and not always provide the information requested. It is always good to back to the vendors within a short time frame to clarify any areas of uncertainty. **Quickly reviewing each response upfront will give you a view of who made an effort and the overall quality and completeness of the respective proposals.**

#### *2.5.4 Development/ Agreement on an appropriate scoring methodology*

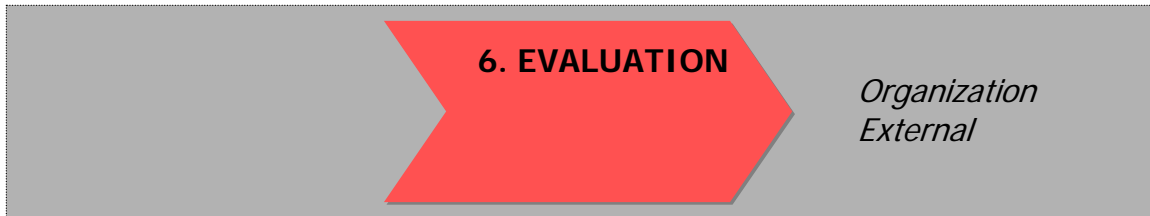
Prior to reviewing vendor responses, agree the key factors that will assist you in making a decision on which vendor to select and list these on a page.

They may be factual, like local support or price, or based upon other factors like implementation resources and timing etc. What is important however, is that these are considered before reviewing the proposals so vendors cannot lead you with the strengths of their systems or otherwise. These scores can also be weighted depending on organizational requirements, so cost or certain functional capability might receive an additional weighting if it is considered important.

## **2.6 Phase 6 - Evaluation**

**This phase to ensure you make the right decisions as to which vendors to negotiate with for the new system,** and communicating the outcomes to the unsuccessful vendors.

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**Key objective:** Quality evaluation to enable the decision

*Estimated time: From 2 days to around 6 weeks, depending on the number of vendors and the method of scoring each vendor.*

Using the score sheet developed and the individuals responsible for making a final decision on the vendors to proceed with, there are two ways to proceed:

- Circulate the proposals or copies thereof with the score sheets and get each individual responsible to score the proposals themselves;
- Break the proposals down by function and get only that portion evaluated by the responsible function;
- Score all of the vendor proposals and circulate the score sheets and proposals to the individuals responsible for evaluation.

The second option is usually the most effective, ensuring each function takes responsibility for their own area, but can take time to set up. The first option is the most thorough and the last option the most time effective, but has the lowest ownership of outcomes.

The score is indicative of each systems fit with the identified criteria and should by no means be the only means of reaching a final decision. If a lower scoring system is preferred, the reasons should be thoroughly investigated, considered and communicated.

### *2.6.1 Evaluating vendors and responses*

To ensure this is a robust process, do the following:

- Review and score each proposal against the preset criteria and document any thoughts and decisions in this process, as well as areas where clarification is required.

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- **Reference check**, not only on the software but if possible the project manager or other resources proposed to deliver the project. If possible, do a **site visit** to another organization running the same system, spend some time with them, understand their relationship with the vendor and speak to them without the vendor present.
- Arrange **product demonstrations**. These should include “proof of concepts” where you provide certain data to the vendor and the vendor can demonstrate how their system will deal with it. If the vendor cannot do this, it may indicate the need for customizations, which should be well understood before proceeding.
- Arrange two demonstrations if possible, one where the vendor leads the presentation, this can be to a larger crowd and can be used to make people feel empowered in the process and to get buy-in, but beware the time these can take up, so try and limit them to 1 hour maximum.

The second demonstration should be more of a working group over a longer time with the core project team there to go through in detail and debate how certain processes would work. This will get you a feel for the suitability of the software as well as the culture of the vendor selling it. You must be comfortable with the people. Generally, this would only be conducted with the final two vendors.

As you go through the above process, there might well be vendors you can eliminate very quickly from the process for obvious reasons such as shortcomings with functionality of technology. Do not spend extra time going through demonstrations when you can eliminate certain vendors immediately.

From this process, a preferred vendor or vendors will usually emerge. It is very tempting to put all your time and effort into this vendor and proceed forward. **It is recommended however that at least two vendors go forward to the final stage of negotiation.** This should be agreed with senior management and communicated to the vendors.

This ensures risk is properly managed and should one vendor not be able to deliver or suddenly change their terms and conditions, there is a fall back position. This might involve some additional effort, but it will be worthwhile should the preferred vendor not turn out to be all that preferred after all.

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## 2.7 Phase 7 - Making recommendations \$

This requires negotiation with the preferred vendors. If done properly, there is the potential to save significant amounts of money and frustration.

Remember, vendors negotiate contracts of this nature for a living, the chances are that you don't, so make sure you spend adequate time on this and if you are unsure of something, seek clarification before proceeding.



**Key objective:** Recommending the preferred vendor system to implement.

*Time: This will take as long as it takes to get it right.*

### 2.7.1 Developing implementation plans and planning

To negotiate the system generally involves negotiating the pricing, specification and delivery timing of some or all of the following:

- Hardware specification
- Hardware purchase
- Software license purchase
- Implementation services – hardware
- Implementation services – software
- Training
- Other technical services
- Other software licenses

Due to the inherent unstructuredness of these systems and the associated implementation processes, there is always a contract negotiation to establish how long a piece of string actually is.

The vendor will also generally need to do some scoping to confirm the following:

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- The modules required, they will have proposed certain modules in the proposal based on the information they received and will need to confirm these are appropriate;
- Certain detailed functionality requirements;
- Customizations, if required;
- Number of users of the various modules;
- Final hardware specifications;
- Implementation effort and resources available to be involved in the implementation from your organization;
- The implementation project plan.

This is where it can all go horribly wrong. Also at this stage, you have invested some time with the vendor so stepping back to consider alternative vendors can be difficult. The vendors also know this, which is why it is important to negotiate with two vendors before finalizing.

The contract negotiation is a critical link in the chain, between selecting the right system and starting the implementation. **\$**

**The following are key parts of the negotiation process**, which should be clarified and documented in detail to the clear understanding of all parties. This is where you can potentially save your organization a lot of money:

- **Clarity on the modules** that were proposed and the final module list, including pricing differences and the reasons for these differences. Go into the detail here. In the majority of cases, additional modules will be required, and this is generally as a result of a lack of information provided to the vendors, just ensure this is reasonable. **Do not buy modules you might need in the future, buy them later**. Adding additional modules later is generally not as onerous as trying to implement them all upfront. Just ensure you are aware of the pricing structures on adding modules should they be different from initial implementation.
- **Be very clear on the implementation services to be provided** by the vendor and the effort your staff are required to put in. Review the proposed resources in detail and ask for resumes and even references. A common issue is price pressure reducing the implementation services and increasing the resources required from your organization unrealistically.

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- Be very clear on what integration will be required to other systems, the nature and cost of this and whether it has been done before. Sometimes additional software is required to provide real time integration.
- Understand what data will be transferred or converted to the new system from the existing system. Opening balances are generally the easiest but the history and detail is then lost. This may require the existing system remain available for at least a year or two to maintain access to this data. Data conversion is generally costly and timely and can be complex. Decide on what strategy will be used here. Financial data might be easy to look up in another system but this might not be practical with respect to customer data.
- Customer and supplier master files will generally required to be converted but are usually a lot easier than converting transactional data. Understand the conversion process and effort.
- Be very clear on all customizations that will need to occur, how these will be developed, pricing, the testing process and the implementation process. Also, ensure these customizations will not affect future upgrades and make sure you understand how they will be maintained.
- Negotiate on the licenses, the closer to a quarter-end the better the deal you might get. There is generally some discounting possible. A reseller will get around 45c in the dollar on software sold. If you also have the potential for a vendor to break into a new market or be a flagship client, your negotiating position will be stronger. At a minimum try for 20% off the recommended price. (See Industry overview document)
- Make sure the services contract is fair; an unfair contract will generally affect the quality of the implementation. Ensure the rate per day is reasonable for the level and number of resources and the number of days is reasonable. Discuss this in detail with the vendor and speak to third parties who have recently implemented systems to get some sort of benchmark. A good benchmark is the ratio of services to full software price. As a guideline, a bare bones implementation would probably run in the region of .6 to .8 to the software cost, whereas a full implementation with change management and process redesign might run around 1.2 to 1.5 of the software cost.
- Ensure the hardware is specified and documented in detail. The vendor should carry the risk of specifying the right hardware. Inappropriate hardware can result in a slow system that will impact heavily on processing and reporting and bring a lot of frustration to the organization.

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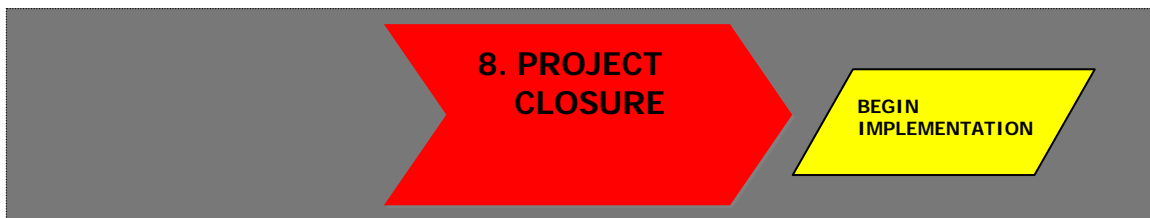
- Find out who delivers the training, check that they are capable by attending one of their courses if required and familiarize yourself with the course content to ensure it is suitable. Poor training will impact perceptions of the system and the proper usage thereof.
- Ensure you understand how the vendor will configure the various processes and related internal controls. Data accuracy is important and these will help ensure the integrity of data in the system.
- Review the proposed reports and understand each one. Enterprise systems often have limited reporting capability. Do not gloss this over, make you understand existing reports and the systems reporting requirements and that at a minimum the same reports can be generated by the new system.
- Understand any changes required to master files or the chart of accounts and understand how these will affect the organization and how they will be managed. Changes in the chart of accounts mid financial year can require consolidations with historical data, which then may have a different structure.
- Calculate the whole of lifecycle cost over five years including hardware, software, and maintenance and support etc. and take into account savings from existing licenses. This is the only way to develop a true cost comparison between systems, especially with the rise in ASP type solutions. Make sure you include the following in these calculations:
  - All software modules required;
  - Any database requirements
  - Any future modules, if applicable;
  - Any customizations required;
  - Implementation services;
  - Support over three years;
  - Any future upgrades if applicable;
  - Maintenance over three years;
  - Hardware required;
  - Internal organizational costs;
  - Any other software, such as operating systems etc.
  - Any peripherals required e.g. backup solutions;
  - Any network upgrades or additional telecommunications;
  - Other contractors or consultants required.

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The best way of pricing systems on a comparative basis is to price on the opportunity cash cost. Thus, if there are cash outflows, which cannot be avoided regardless of whether the new system is purchased, these should be ignored. Given there are additional costs incurred in the first year, a good basis to price is over a five-year period.

## 2.8 Phase 8 - Project signoff

This Phase is about selecting the final vendor to partner with and getting the contract signed. In addition making sure all contract and project documents are appropriately filed for future reference.



**Key objective:** Getting signoff to proceed to implementation

Estimated time: A couple of days to prepare the presentation and present. Consider having the winning vendor co present to get key messages across and ensure any questions are answered immediately and the vendor jointly owns the process. Thereafter signing will depend on senior management.

### 2.8.1 Communicate the final decision

Present to senior management on all aspects of the system selection, including:

- Full lifecycle costing of the system
- The vendor, their system and experience
- The project plan and related timelines
- Resourcing
- Anticipated benefits

After the appropriate documented signoffs are obtained, communicate the decision to the winning vendor and to the organization. Ensure the people in

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your organization start to become aware of key dates and milestones, their involvement however big or small in the project and other relevant key aspects of the project.

Finalize the start date for the implementation and keep in mind relevant business cycles when doing this.

*Experience: These experiences make interesting reading:*

- *A financial services company selected a new treasury system and was told implementation would be free. During the contract negotiation this was revised to 20 days. After the contract was signed, it was communicated that this was based on the expectation that the client provide 87 days worth of resource. This was impossible as the client only had two part time resources available. In the end, the client had to buy additional consulting time but did manage to negotiate a reduced rate.*
- *The finalization of the hardware required got lost between the software vendor and the implementation partner. After six months of implementation and testing the system went live only to find once all users were on board the system ran slow. So slow in fact, when processing it could take up to 30 seconds to tab to the next field and three minutes to change screens. The software vendor claimed the implementation partner was responsible, the implementation partner claimed that was never part of their service and the client ended up have to purchase new servers to improve the speed.*
- *The proposal in this example stated that \$5000 was for integration. On acceptance, they learned that the vendor had not properly scoped the integration and the \$5,000 was an estimate. Therefore, after the \$5,000 was spent they proceeded to bill the client by the hour for integration work.*
- *A national organization in distribution implemented an enterprise system at great expense. After a couple of months they began to query certain data that appeared to move in swings and roundabouts. At first, the integration interfaces were checked and extensive audits conducted. After a further three months the issue was traced to a storeman who although had been trained, did not have the proper scanning equipment and would pile up all delivery notes until the end of the week and sometimes two weeks before sitting down and entering them all. The million-dollar system brought down by the \$35,000 pa storeman.*

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### 3. Conclusion

This document gives an overview of the professional Services Online system selection methodology. It is not considered complete and should only be used in conjunction with the full system selection methodology provided online.

More information can be obtained at [www.professionalservicesonline.com](http://www.professionalservicesonline.com) or email us at [feedback@professionalservicesonline.com](mailto:feedback@professionalservicesonline.com) .

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