WHITE PAPER

Don't Confuse Apples with Oranges when Selecting ERP Software
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ABSTRACT

Most companies make the mistake of generalizing enterprise software. Not all enterprise software products are the same, especially when it comes to cost, risk and technology. It is important to classify and group similar enterprise software products together before making a decision. Suggested is a new classification and selection approach using a "Software Selection Triangle".

DEFINING APPLES AND ORANGES

The enterprise software industry, which includes ERP, SCM, CRM, WMS, PLM, etc. for all industries, is vast and complicated. The options are staggering when considering the selection of an enterprise software product. All of the merger activities over the past 10 years have done little to reduce the number of options, only the number of software suppliers has been reduced. Basically, the same products are still available, just under different names and suppliers. Your choices vary from QuickBooks© to SAP© with a couple hundred products in between.

Making an enterprise software selection decision is difficult at best. And, unfortunately, most companies make the mistake of generalizing the enterprise software industry. This is understandable, because generalizing is what we humans like to do. It's a way of simplifying a very complicated and chaotic situation. However, generalizing gets us into trouble. For example, it's rather annoying to hear a man say, "All women are…" or a woman say, "All men are…" because, not all women and men are the same. This is true with enterprise software—not all products are the same.

We have all heard the adage, "comparing apples-to-apples and oranges-to-oranges," which implies defining options and grouping similar options together before making a decision. The process of defining classifications and organizing options within classifications will help to clarify a complicated situation, and will make it easier to decide which option to choose. The same may be applied to enterprise software when making a selection decision. Defining and classifying enterprise software will significantly improve your decision-making process. The question is what kind of classifications should you use before making an enterprise software decision?

There are currently several enterprise software classifications commonly used throughout the industry. For example, the three "Tier" classification approach, where "Tier-three" products include products from small software suppliers like QuickBooks©, and "Tier-one" includes products from large suppliers like SAP©. However, the size of a supplier may not be relevant to your situation. There is also the "Industry" classification approach, where enterprise software is classified into "Industry Types", such as Point of Sale (POS). However, both QuickBooks© and SAP© have POS functionality. As you can see, these classifications might not be useful when making an enterprise software selection. Therefore, additional classifications must be developed and used to help in the enterprise software selection decision.

Using classifications when making an enterprise software selection decision will provide clarity; however, this approach requires an initial strategy before making a decision. That is, defining what is an apple and what is an orange.

At the beginning of any enterprise software selection process, it is recommended to define and put in place a selection strategy before going to any software listing. The reason is to help you understand the subtle forces driving enterprise software decisions. These forces are usually always present but rarely discussed or understood up-front, and could eventually take over the decision-making process unless they are clearly identified and discussed. The subtle forces I am referring to are cost, risk and technology.

This document suggests adding to your enterprise software selection strategy a set of classifications, which might help you define and understand the underlying forces of cost, risk and technology. These three forces often become primary factors behind enterprise software selection decisions. These three factors typically drive most selection decisions and create what I will refer to as the "Software Selection Triangle."
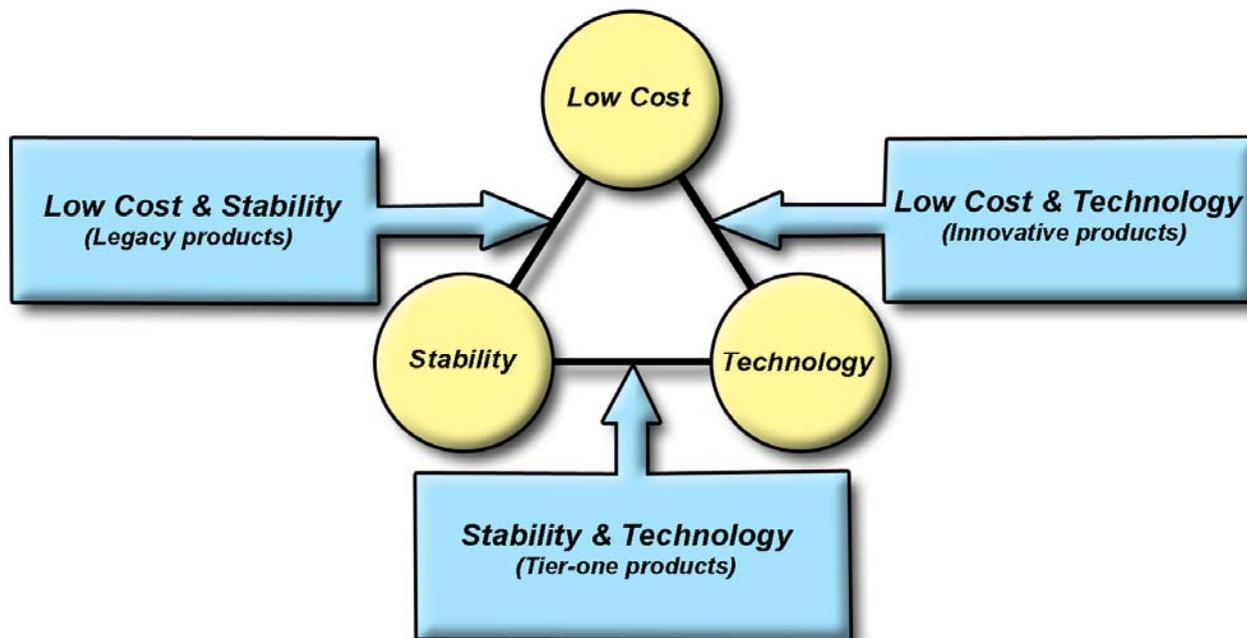
Figure 1: Software Selection Triangle

THE SOFTWARE SELECTION TRIANGLE

Figure 1 represents the "Software Selection Triangle." Illustrated are the three primary factors and three classifications used to define enterprise software. Each of the three factors represents one of the primary driving forces behind most enterprise software selection decisions. The combination of two factors represents an enterprise software classification. Combining two of the three factors with unique combinations will derive three enterprise software classifications. These classifications might be used in a selection strategy.

The three factors are defined as follows:

Low Cost: "Low Cost" indicates an enterprise software product at the lowest possible cost. However, don't confuse low cost with cheap. Keeping down software costs should be paramount since the IT budget has skyrocketed over the last 10 years. Cost is a very common and subliminal factor during most selection decisions. Subliminal, because few will admit they cannot afford or do not want to buy the most expensive product. However, the underlying force is still there, so don't ignore it.

Stability: "Stability" indicates the likelihood of an enterprise software product and/or supplier remaining in business, in other words the level of "Risk." Making sure a company stays in business is usually an important factor during most selection decisions. This underlying

force drives more decisions than most would care to admit.

Technology: "Technology" indicates the level of cutting-edge technology used for product development. The product might be freshly written from scratch using the latest technology and innovation. Innovative technology might be the means to compete in a specific industry and is sometimes an underlying and important factor during the selection decision.

The "Software Selection Triangle" shows the dilemma most companies face when making a purchasing decision. As you might have noticed, the three factors often oppose each other. For example, it is difficult to find a product that is stable and low in cost. This means most enterprise software products will only satisfy two of the three options. It will be very difficult, if not impossible, to find an enterprise software product satisfying all three factors. You can satisfy two of the factors, but not all three. That is, you cannot find an enterprise software product low in cost, stable and with cutting-edge technology. It just doesn't exist.

I am sure if you ask any enterprise software supplier, they will assure you their product fits all three factors. Don't be fooled! Most products will fit into only two of the three factors. If the supplier insists their product satisfies all three factors, then suggest their initial cost should be zero since there are several good products in the "Open Source" market for free.

As I mentioned earlier, three enterprise software classifications may be derived from the three factors, where each classification represents a side of the

"Software Selection Triangle." Every enterprise software product could be placed into one of the three classifications.

The exercise of defining classifications and placing options into each classification is important for any complicated and confusing decision process. Yes, I know you are thinking this sounds nerdish or futile because there are so many "gray" options. But, the exercise is important and will add clarity to a complicated and confusing array of options. In addition, it will help to clarify what is really important for your unique requirements and situation.

The following defines each classification along with the associated "Pros" and "Cons":

Low Cost and Stability (Legacy Products)

The "Low Cost and Stability" enterprise software classification is typically referred to as "Legacy" products. That is, they have been around for a long time and most likely will continue to be around for some time to come. And, since they have been around, they are most likely inexpensive. You can get a good solid product in this area for a reasonable price and expect a substantial user community even if it is shrinking.

The "Pros" and "Cons" for the "Low Cost and Stability" classification are as follows:

Pros:
- *Lower Cost*
- *Large user community*
- *Product stability (least amount of bugs)*
- *Available experienced users and consultants*
- *Might be able to negotiate cost and support*
- *Lower risk (company and product will most likely continue)*

Cons:
- *Less stable company*
- *User community is shrinking*
- *Diminishing support*
- *May not keep up with technology changes*
- *Older technology with possible layers of newer technology*
- *Might be difficult to understand and customize*
- *Might be difficult to implement (complicated)*

Stability and Technology (Tier-One Products)

The "Stability and Technology" enterprise software classification is typically referred to as "Tier-One" products (as mentioned previously). These are the primary products from large software suppliers, which

have the necessary resources and muscle to keep up with changes in technology. These suppliers will most likely be around for a while with a strong and growing user community. Stability and technology is strong within this classification, but you pay for it.

The "Pros" and "Cons" for the "Stability and Technology" classification are as follows:

Pros:
- *Very stable company*
- *Largest user community*
- *Product stability (somewhat less bugs)*
- *Lowest risk (company and product will most likely continue)*
- *User community is expanding*
- *Will be able to keep up with technology changes*
- *Most available experienced users and consultants*
- *Continuing support*

Cons:
- *Highest cost*
- *Less likely to negotiate cost and support*
- *Older technology with layers of newer technology*
- *More difficult to understand and customize*
- *More difficult to implement (very complicated)*

Low Cost and Technology (Innovative Products)

The "Low Cost and Technology" enterprise software classification will usually consist of innovative and cutting-edge products from newer companies. These products are most likely to be written from scratch using current technology and development techniques. There are some really great products within this classification if you are willing to take the risk.

The "Pros" and "Cons" for the "Low Cost and Technology" classification are as follows:

Pros:
- *Lower cost*
- *Might be able to negotiate cost and support*
- *Current and innovative technology*
- *Easier to understand and customize*
- *Easier to implement (not complicated)*
- *Consistent new technology*
- *User community is expanding*
- *Expanding support*

Cons:
- *Unstable company*
- *Less stable product (might have more bugs)*

- *Small user community*
- *Difficult to find experienced users*
- *Higher risk (company or product might not continue)*
- *Less available users and consultants*

ENTERPRISE SOFTWARE SELECTION STRATEGY

Now that the underlying forces or factors are understood and product classifications are defined, you can define an enterprise software selection strategy.

As I mentioned earlier, developing an enterprise software selection strategy before starting your search is highly recommended. As you can see from the factors and classifications defined in the "Software Selection Triangle" (Figure 1), it will make it easier to define a strategy.

I am sure you are wondering where your company's requirements come into play. Defining requirements is a given and must always be part of any enterprise software selection decision along with all of the other standard activities, such as defining a selection team. The activities of selecting a decision team, gathering requirements and matching software functionality to your requirements are important activities, but beyond the scope of this document. What is relevant to this discussion is the fact that most enterprise software today contains most of the basic functionality necessary to address most company requirements. This means the playing field is being leveled, which is why the three factors of cost, stability and technology come into play.

As you develop your enterprise software selection strategy, make sure you include the "Software Selection Triangle," because the three factors (or underlying forces) should be addressed and understood early in the process. For example, if "Low Cost" is a primary factor (even though no one wants to talk about it), don't waste time looking at all of the other products, it will just lead to frustration.

If you use the "Software Selection Triangle," I am sure you noticed this leaves two possible selection strategies. That is, either pick a side or define a strategy for each side. The following defines each of these strategies:

Software Selection Strategy One—*Pick a Side*

I always recommend trying to make a selection strategy for just one side of the "Software Selection Triangle." If anything, the exercise will be very helpful in defining your primary objectives, namely, which factors are most important to your management and user community? If "Risk" is a primary factor, then only products with "Stability" should be considered. If "Cost" is also a primary factor, then you should only consider "Low Cost and Stability" products. But remember, you must give up "Technology" as an option. Trying to satisfy all three factors is just an exercise in futility. I promise, if you just pick a side or have a strategy for each side, you will make the experience significantly more pleasant.

Picking a side will be difficult. Typically, management prefers lower risk (stability), company owners prefer lower cost, IT management prefers technology and users will go either way if their requirements are satisfied. I recommend doing this battle up-front.

To help with the "pick a side" battle, I might suggest the following tips:

- Cost will be confusing. Cost is not just the initial cost of an enterprise software product, but the whole enchilada. This includes the initial software cost and all hidden costs. The initial cost of enterprise software products might be marginal these days due to intense competition, regardless of which side of the "Software Decision Triangle" they fall under. The real cost difference will be in the hidden costs. Therefore, make sure you identify as many of these costs as possible, before making a cost comparison, even though this might be difficult to accomplish.

- Risk (or product and supplier stability) is relevant. True stability lies in ownership.

- If more companies would select software based on "Technology" we might have better software today.

- Keep an open mind. An innovative small start-up software company with great technology just might become the next "big" software supplier of the future. Imagine picking one of today's "Tier-one" products 20 years ago --- now that would have been a great decision.

If your selection committee cannot "pick a side," then at least define a strategy for each side.

Software Selection Strategy Two—*Define a Strategy for Each Side*

Another enterprise software selection strategy is to identify and review products from multiple sides of the "Software Selection Triangle." However, it is important to classify each product into one of the three sides before you start making comparisons or decisions. This way, you will compare apples-to-apples and oranges-to-oranges. Comparing products on opposite sides of the "Software Selection Triangle" may not make sense and may confuse your real objectives.

You might want to build a long list for each side of the triangle and eventually end with a short list. After further research and demonstrations, cut the list down to three final products, one for each side of the triangle. This way, you can make a final rational decision, as long as you understand these are three different types of enterprise software products. Now the selection decision is between the three factors, which is the real core of most enterprise software selection decisions.

CONCLUSION

Cost, risk (supplier stability) and technology are the primary underlying factors in most enterprise software selection decisions. Unfortunately, you cannot satisfy all three factors in a single product. Often these factors override functionality, especially the risk factor. Often companies will make decisions based on risk alone, throwing out cost and sometimes technology.

It is important to address these factors first before starting the selection process in order to have a balanced approach towards all three factors. If these factors are not discussed and built into an overall selection strategy at the beginning, the selection process might be skewed to favor one of these factors unknowingly.

I hope this document has provided a little enlightenment on the process of selecting an enterprise software product, because enterprise software is not as obvious as apples and oranges.

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About the author:
Casey Lawrence has over 25 years of experience in marketing and implementing 10 different enterprise software applications to over 100 companies worldwide. Casey has held various technical, marketing, and senior management positions.