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## *Caveat Emptor – ERP Pricing Risks*

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Caveat Emptor (Buyer Beware) is an ERP vendor's best way of defeating an organization's attempts at holding the vendor responsible for any misrepresentation that leads to implementation failure or unexpected costs. In today's world of convoluted pricing matrix contracts, the pricing model that the customer agrees to has a good chance of being insufficient to cover the actual cost of operating the solution.

The budgeted five-year cost of the ERP solution will have the same probability of being achieved as I have had hitting a hole-in-one on the golf course. For the record, I have succeeded in achieving that goal. That was hole of the thousands I have played over the last 50 years.

The following information is only being provided to make you aware of **some** of the risks involved in pricing your ERP solution, implementation and ongoing cost. ***It is recommended that your organization engage an experienced independent consultant for guidance and then a law firm that has experience and expertise in these types of contracts (technology and services).*** The investment up front will help you avoid many of the contractual situations that will create budgetary chaos during, and after, the implementation of the ERP solution.

### ***Typical Pricing Models & Costs***

The obvious costs include:

- The cost of the software license which is cloud-based, locked in for multiple years and subject to a maintenance and support agreement.
- The cost of the ERP partner firm that was providing consulting and technical services during the implementation of the solution.
- Upgrades to internet services and your user devices (e.g., laptops and mobile phones / tablets) to support the use of the solution.

### ***The License***

The largest risk is typically the licensing which will have at least two components. I've seen contracts with various permutations, but the **number of users** can be a minefield. Some contacts have the client organization categorize the number of users by group (e.g., finance, sales / customer service, operations, etc.) and / or roles within the organization (e.g., senior management, finance clerical, operations planning, customer sales and support, supply chain, etc.).

In a professional services firm, you may see different terms (e.g. instead of customer support personnel, it will be the number of billable personnel with targets of xx% utilization).

You may have good information to provide based on your current systems. *How do you calculate what those numbers will be once you've gone live with the new solution?*

There are contracts that are based on **transaction activity**. The most common of these can be based on:

- The highest total number of transactions you process in any month of your fiscal year.
- The number of transactions by transaction type.
- The six-month average of total transactions or by transaction type.

Once again, you may have good information to provide based on your current systems. *How do you calculate what those numbers will be once you've gone live with the new solution?*

*Think through your expectations of the new solution in terms of efficiencies gained, potential headcount and / or role changes and your organization's five-year plan.*

*Have the short-listed vendors provide your organization with the methods used to calculate your transaction levels. Then analyze your history against their methods and allow for expansion of transaction counts.*

- *In some situations, clients have paid a nominal amount to the last two short-listed vendors to have them analyze the historical transactions and provide that information, in detail, to the client. The analysis is signed-off by an officer of the short-listed vendor. With this done, the vendor has the responsibility of providing an accurate pricing proposal to the client and should have no issue with locking in that pricing to the contract.*

### **Implementation & Support Services**

During the demonstrations and ongoing conversations with your shortlisted vendors, there will be discussions regarding the time and effort required to implement the ERP solution. There will be verbal promises made, PowerPoint presentations on an implementation methodology and Statement of Work (SOW) documents created along with a Professional Services Agreement which provides information such as billing rates, travel expenses, etc. Without a documented, fully resourced and committed project plan with target milestones, the client organization has no recourse when the project goes sideways and ends up being late, costing more than budgeted and not meeting the return on investment expected.



*This is where an experienced ERP project manager / consultant is going to be extremely valuable. They can provide the following advise:*

- *The knowledge capital required by both the client and the ERP vendor to make the project a success. This would include the internal educational requirements that are outside of learning the ERP solution's functionality.*
- *How to create, and execute, the organizational change management plan that needs to be integrated into the overall project plan.*
- *The creation of a human resource disaster recovery plan for their team (and you want to make sure the ERP vendor has one too).*
- *The various methods of backfilling the internal resources during the project.*
- *How to properly set up the Steering Committee and Team Management structures and reporting.*

### ***Your End Result***

When you invest the time, proper resources and management into the beginning of your ERP selection, and then be very detailed in understanding the implications that the contracts you sign will have on the stakeholders of your business (employees, customers, suppliers, etc.), you'll have an excellent opportunity to be part of the 25% of successful ERP implementations. In other words, you'll avoid being part of the 75% of ERP implementations that fail.