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ERP INSIGHTS

Which System is Truly Best?

The important role of an RFP and evaluation criteria in system selection

BY MIKE MUCHA

Governments that are looking for a new enterprise resource planning (ERP) system often pose one question to GFOA message boards or GFOA's consulting team: Which system is best? With at least a dozen major vendors in the market, each with different functionality and strengths, the question is difficult to answer. The "best" system for one government may not be the "best" system for all governments.

Of course, when governments award a contract as part of a request for proposals (RFP) for a new ERP system, not only do they need to determine the best system, but also the best proposal for the system and any implementation and support services. GFOA recommends that organizations pursue licenses for ERP software along with professional implementation and support services together in one RFP. Determining which vendor provides the best package of software and services is complicated, especially since proposals may include different firms for each—and they're equally important since even the best software will never achieve project goals without a good plan to implement it, and vice versa. Governments also need to evaluate which proposal provides the best value for the price.

In this article, we will discuss how to write an RFP, how to structure the evaluation process, and the importance of clear evaluation criteria for determining the best value proposal.

Writing the RFP

Few people look forward to an RFP process. Competitive procurement in local government can often involve outdated forms, long delays, irrelevant boilerplate text, and confusing requirements, making the entire process challenging. GFOA regularly works with consulting clients that desperately want to explore options other than an RFP. Not all RFPs need to be time-consuming and frustrating, however. RFPs are a critical part of public procurement, promoting competition,

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transparency, accessibility, and fairness. They also can be an integral part of a government's overall ERP planning and readiness process.

RFPs are used to determine the best value proposal in situations where detailed requirements aren't known or where solutions to meet those requirements can vary—which is the situation governments face when purchasing a new ERP system. A government will understand its overall business objectives and have a vision for how the system will be used to meet outcome-focused goals or future-state business processes, but lack the internal knowledge to define exactly how the ERP system will work. In addition, ERP software packages work differently. An RFP process, done well, creates a competition of ideas about the best ways to solve a government's problems or challenges. Used correctly, the RFP will present your situation and invite proposals, allowing your team to consider alternatives, engage in discussion with industry-leading vendors, and continue to prepare your organization for the upcoming project.

An RFP must clearly define the challenge and state any hard rules vendors need to adhere to in proposing a solution, and in response, the vendors, with their own specialized knowledge, will prepare a proposal or solution. For ERP systems, that solution needs to include both the software itself and the plan for installing and adapting it to fit the government's processes (or, preferably, for the government to change its processes to better fit the new software). Proposals are then compared against pre-established price and non-price criteria, with an evaluation team scoring proposals to determine which one provides the best overall value. "Best value" is the best combination of all price and non-price criteria. The lowest price is not necessarily best; the most functional and most expensive isn't necessarily best, either.

Governments often confuse bids with RFPs, even when the process seems straightforward. By contrast, an invitation to bid (ITB) provides detailed specifications about what the government wants to purchase. ITBs are often used for materials, supplies, or other specific items where the purchaser already knows what it wants. Bids are awarded to the responsible bidder that proposes the lowest price and meets the requirements of the bid. For example, in construction projects where architectural drawings already exist, an ITB is used to find a builder to construct the project exactly to the architect's specifications. The minimum acceptable standards, like contract terms, certifications, or licenses, must be stated precisely because, again, the vendor that meets those minimum standards and has the lowest price gets the contract. If two vendors both meet the minimum standards and one offers a clearly superior product, the one with the lowest price will still win.

The difference between establishing evaluation criteria and setting bid requirements is subtle but important. An RFP allows us to evaluate a vendor's level of experience, while a bid requires us to state that each vendor has at least X years of experience. RFP criteria can

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be evaluated and judged on a scale, allowing us to factor in the value of additional experience when determining best value. A bid, on the other hand, requires pass/fail criteria (does vendor have 5 years of experience, yes or no?).

When issuing an RFP for an ERP system, governments often attempt to define minimum qualifications to prevent an unqualified vendor from winning, but this is unnecessary and can arbitrarily eliminate good proposals with poorly defined minimum requirements. For example, we all agree that having experienced consultants is preferred—but if we had to set a minimum requirement, how much experience is required? One year? Three years? Five years? Also, is it better to have a consultant who passively participated in a project for five years, or a consultant who was actively engaged for three? And how do we evaluate the firm's experience when consultants may switch jobs?

Defining metrics is difficult, which means it's difficult to use a bid format for complex projects where vendors have more flexibility to propose different solutions or different levels of service. Fortunately, RFPs that use an evaluation team to score vendors based on established evaluation criteria can be very effective—keeping in mind that evaluation criteria must still be well-understood.

Establishing clear evaluation criteria

Evaluation criteria determine how we judge best value. Each individual evaluator on an RFP evaluation team will have a formula in mind for which factors mean the most in determining which proposal is best. If evaluators don't agree on the definition of what is best, however, applying that definition and making a decision is very difficult. That decision isn't likely to be seen as fair, either.

Governments don't want a decision process that devolves into spirited conversations, politicking, or groupthink. To illustrate, let's assume that our committee was tasked not with identifying the best ERP proposal, but with identifying the best NFL quarterback. It's likely that several individuals would enter the discussion. If we only considered current quarterbacks, there are cases to be made for Josh Allen, Patrick Mahomes, Joe Burrow, Matthew Stafford, or Lamar Jackson. If we look at past quarterbacks, we might consider Joe Montana, Tom Brady, or Peyton Manning. If the evaluator was asked to defend their choice, they would likely be able to explain their rationale—and which criteria they used to determine who was best. But each person would almost certainly be using a different set of criteria and then arriving at a different choice. Some would put more weight on career longevity, Super Bowl wins, leadership skills, passing yards or touchdowns, or physical metrics. Understanding how previous performance versus future potential was considered could be telling.

If every evaluator used slightly different criteria, we would have the setup for an entertaining argument to have over a few beers, but not an effective way of making a decision. If we instead had the same group start by identifying the specific combination of characteristics each person would use to define "best," we could have a much more productive conversation that was rooted in facts. If each evaluator were using the same scoring rubric, we would be applying our definition of best consistently, even if some criteria required subjective evaluation and there was some disagreement on how to apply a certain standard. Our decision would now also be based on applying the criteria to facts and a common understanding of what we are evaluating.

GFOA has found that, just like a group of friends arguing over sports, governments rarely spend sufficient time defining their evaluation criteria—leading to a much more difficult decision process. We therefore strongly recommend that the evaluation team (or other appropriate set of stakeholders) in an RFP evaluation process clearly define the evaluation criteria in advance for each round of scoring. (As we will explain below, ERP evaluation is best done in multiple rounds to help narrow down choices.) When determining which ERP evaluation criteria to use and how much relative weight to assign each one, consider what you expect to be major differentiators or what you value most on the project from your vendor. Criteria commonly used could include any of the following:

- Responses to functional checklists and ability to meet scope.
- Software demos and usability of the system.
- Technical features of the software, such as security or system administration capabilities.
- The qualifications or experience of the vendor or vendor consulting team.
- Compliance with desired contract terms.
- Responsiveness of the vendor's answers to the questions posed in the RFP.
- Overall implementation approach and schedule.
- Project management services and ability to mitigate known project risks.
- Ability to improve business processes and achieve project goals.
- Training services and approach for user adoption.
- Consulting materials (deliverables) produced.
- Post-project support services.
- Quality assurance processes.
- Price.

Other criteria may apply, given the specific situation or values of each government—which must then decide the relative weighting for each criterion, and when to use each one. For ERP projects, GFOA would recommend a multi-phase evaluation process that allows a broad evaluation for all responses and a deep-dive evaluation for a select few elevated proposals.

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Defining the evaluation process

In *The Paradox of Choice*, Barry Schwartz wrote that "learning to choose is hard, learning to choose well is harder, and learning to choose well in a world of unlimited possibilities is harder still, perhaps too hard." While RFP choices are not unlimited, it can be difficult for an evaluation team to consider all the many options and then make an informed decision. Just as GFOA advocates for finance professionals to become decision architects when it comes to structuring their budget process (see "The Decision Architect," *GFR*, February 2023, at gfoa.org/materials/gfr0223-decision-architect), we also understand the need for finance professionals to become decision architects for their procurement decisions.

GFOA's experience with RFPs for ERP systems is that most governments receive between 10 and 20 proposals. Determining which proposal provides the best value among 20 options is almost impossible. Think of another common decision process—elections. If we had to pick elected representatives from a field of 20 people, the best candidate wouldn't always get the most votes. To help create a better process, some governments use a format that involves a primary for each political party, with winners facing off in a general election. Others may use decision processes like ranked choice voting. Others still may require that winning candidates receive at least 50 percent of the vote, and if no one does, the top two candidates compete in a runoff election. All are examples of decision architecture that adapt the process to improve decision quality.

For ERP systems, GFOA recommends a multi-step decision process that allows the vendors receiving the highest scores to be elevated for additional analysis. Under this format, every vendor goes through an initial evaluation where their response to the RFP is reviewed and scored against evaluation criteria. This stage often includes a brief remote presentation. After scores are tabulated, the evaluation team determines which vendors to invite for demonstrations or presentations. Following those events, each proposal is scored again, with top vendors being re-elevated in a final clarification stage that focuses on scope, implementation issues, and the project team. The evaluation team again scores the remaining proposals, with the one that earns the top score being awarded the contract, subject to successful final negotiations.

Depending on specific circumstances, an organization's leaders may want to build other elements into the process. GFOA has worked with governments that used anonymous reviews to remove pre-existing bias toward (or against) known vendors, project team interviews to focus more on individual consultants, requests for clarification to address known risks, or reference checks or site visits to gather additional information. Whatever decision process is used, it needs to be defined upfront in a way that is fully transparent to stakeholders in the decision process.

Making good decisions

With a properly drafted RFP, clear evaluation criteria, and a well-designed evaluation process, governments will have what it takes to effectively determine which ERP solution is best for them. Trust the process. Activities completed as part of this effort to identify the best-value proposal and select your ERP vendor will help in achieving critically important ERP readiness tasks. For example, taking time to view software demonstrations and listen to alternative proposals is an important change management activity that allows users to consider different options. The in-depth review of ERP proposals will lead to better documentation of issues and better understanding, allowing finance professionals to negotiate a detailed statement of work.

Engaging potential vendors in RFP evaluation activities initiates a relationship and greater familiarity with the vendor and their personnel. Governments can also use this time, along with the feedback and lessons learned from vendors, to work on their own readiness tasks—and to ensure that governance is in place early in the project, data is ready to convert, requirements and goals are clear, staffing resources are assigned, and project managers are prepared to lead. Prepared governments are better able to understand exactly what they need in a vendor proposal, to determine best value, and to position their project for ultimate success.

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