VIEW POINT

THE HIDDEN ERP VALUE GAP: HOW BOM RATIONALIZATION AND CONTRACT NEGOTIATION UNLOCK MILLIONS BEFORE IMPLEMENTATION

Abstract

The real ERP deal is often decided before implementation starts. This paper highlights how BOM rationalization, commercial structuring, and value-led contract negotiation can prevent pre-implementation value leakage, optimize TCO, and reduce long-term commercial risk.

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Executive Summary:

In most organizations, it is commonly believed that the real ERP transformation journey begins on go-live day. In truth, the decisions made long before the systems are selected or vendor contracts are signed or single line of code is written determine whether the ERP transformation produces measurable results or becomes an expensive & painful lesson.

The five-phase process outlined in this paper from RFP cycle and Vendor Shortlisting through contract finalization spanning approximately 12 months in total is not merely administrative or routine work. Each phase is a chance to improve things early. Clients who engage pro-actively and strategically during this pre-implementation window arrive at go-live with cleaner processes, stronger vendor relationships and reduced total cost of ownership (TCO) and a team that is already aligned.

This paper walks through each phase, exploring what clients can collectively do to get benefits sooner, why it matters and what it feels like on the ground for people living through it.

Introduction:

Imagine an organization that has decided to replace its aging ERP platform. All the necessary approvals are obtained; budget is approved. And almost immediately, the pressure to "get on with it" sets in.

This is the trickiest moment of an ERP journey, not because the technology is complex or there are multiple options to choose from, but because this urgency and pressure to "get on with it" can compress the very activities that determine the success. The Selection-to-Signature phase is often treated as a hurdle rather than a strategic exercise.

Yet, the organizations that get the most out of their ERP transformation journey are almost always those that invested seriously in the pre-implementation phases that we will discuss shortly. These organizations used the RFP process to clarify what they actually needed and not just what they asked for. They used Bill of materials (BOM) rationalization to question assumptions about cost. They used evaluation and negotiation not just to pick a vendor but, to build relationship and set the tone for every interaction to come.

The following sections explore each phase of this journey, drawing on the framework of five structured stages: RFP Cycle and Vendor Shortlisting (4 months), BOM Rationalization (1 month), Evaluation and Decision Mechanism (1 month), Negotiations Strategy (4 months), and Contract Finalization (2 months).

ERP: Selection to Signature Phases Overview

	RFP Cycle and Vendor Shortlisting	BOM Rationalization	Evaluation and Decision Mechanism	Negotiations Strategy	Contract Finalization
Benefits to Client	• Clear Business Case definition • Current State Pain points and gap identification • Leveraging Infosys' experience with preferred vendors	• Optimized BOM to meet Business Requirements identified in Phase 1 • Reduced Total Cost of Ownership (TCO)	• Using Infosys' scoring mechanism for easy comparison between vendors • Thorough Vendor Evaluation across categories such as Functional, Technical, Legal, etc.	• Leveraging skills of Infosys' experienced Negotiating team • Avoiding pitfalls of a typical ERP contract	• Leveraging Infosys Legal team's relationship with vendor. • Clearly defined and negotiated Key Business Terms, Scope of Work, Deliverables, Milestones, Payment Schedule
Duration	4 months	1 month	1 month	4 months	2 months

Phase 1: RFP Cycle and Vendor shortlisting (4 months)

RFP Cycle and Vendor Shortlisting

Benefits to Client

- Clear Business Case definition
- Current State Pain points and gap identification
- Leveraging Infosys' experience with preferred vendors

Duration

4 months

The Request for Proposal is often reduced to a document exercise, a checklist of features sent to multiple vendors, with responses evaluated by a team who are sometimes not familiar with the products or understand the nuances often come under time pressure. But, for organizations willing to approach this phase differently, the RFP cycle can be the most insightful phase of the entire ERP journey.

The first step is building a clear business case. This is not a slide deck for the board, but an honest assessment of why the existing system is failing and what the organization genuinely needs to achieve. Organizations that do this well discover things about themselves that go far beyond ERP, process inefficiencies they had normalized, data quality problems they had worked around for years, and organizational silos that had quietly built up over the years.

- **Current State Pain Points:** The pain point identification is often seen as an exercise that can justify the investment. But it can be leveraged to produce real insights about current processes or how things operate. A rigorous current-state analysis can help produce a priority map of where business is losing time, money, and opportunity. This map can help drive the vendor evaluation criteria, implementation priorities and change management planning.
- **Leveraging Advisory Experience:** Shortlisting vendors without deep market knowledge can be tricky and it is like navigating without a map. Advisory partners who have worked with ERP vendors across multiple industries bring something invaluable and that is pattern recognition. They have seen which vendors consistently over-promise on certain capabilities or which vendor relationships tend to become difficult after contract signing. The advisors can help clients identify the small set of vendors worth pursuing rather than running with an extensive list.

The value created in phase 1 compounds across every subsequent phase. A clear business case accelerates BOM rationalization. A targeted shortlist makes evaluation more focused, and documenting the current-state pain points creates a baseline against which post-implementation success can actually be measured.

Phase 2: BOM Rationalization (1 Month)

BOM Rationalization

- Optimised BOM to meet Business Requirements identified in Phase 1
- Reduced Total Cost of Ownership (TCO)

1 month

The bill of materials is the itemized scope of software modules, licenses, infrastructure and services required, and this is where ERP projects silently balloon. By the time most organizations reach BOM rationalization, they have already accumulated a wish list that exceeds what they actually need, what their teams can absorb and often what their budget can sustain.

- **BOM Questioning:** One month is not a long time, but it is enough to challenge every line item. Not because of the compulsion but with a single clarifying question: Does this item directly address a pain point identified in phase 1 or does it represent something we think we should have?
- **TCO:** The total cost of ownership (TCO) analysis is where BOM rationalization gets truly valuable. Most clients evaluate ERP through the lens of license costs and implementation fees. But the real cost of an ERP system includes annual maintenance contracts, infrastructure scaling, customization maintenance, training and productivity cost of every workaround that accumulates when the system does not quite fit. Organizations that do rigorous TCO analysis in Phase 2 routinely find that a 'cheaper' solution is more expensive over a certain period horizon or that a cloud deployment model dramatically reduces total cost compared to on-premises.

A structured TCO analysis typically helps organizations identify practical optimization levers, such as:

- Eliminate modules that duplicate existing capabilities already available in the retained landscape
- Challenge customization requests that could be addressed by standard configuration or process change
- Compare deployment options cloud, hybrid or on-prem before vendor conversations go deeper
- Right-size the implementation scope and timeline based on organizational readiness, capacity and not vendor preference.

The BOM rationalization is not about being rigid, but it is about being clear. A leaner, sharper scope that genuinely reflects business requirements will be implemented faster, adopted readily and deliver measurable ROI sooner than a sprawling scope that tries to solve everything at once.

Phase 3: Evaluation and Decisions Mechanism (1 Month)

Evaluation and Decision Mechanism

- Using Infosys' scoring mechanism for easy comparison between vendors
- Thorough Vendor Evaluation across categories such as Functional, Technical, Legal, etc.

1 month

In many organizations, the vendor selection process can be dominated by factors such as familiarity or personal preferences. A vendor that has done work for the company before has an advantage or the vendor whose demo impresses some senior leadership can get elevated. These human dynamics are real and they are not inherently wrong, but they need to be balanced with rigorous evaluation if the selection decision is going to hold up under scrutiny and deliver results.

- **Objective Framework:** A well-designed scoring mechanism creates that balance. The structured evaluation framework is not that it eliminates human judgment, it is that it organizes that judgment systematically. When vendors are scored across functional fits, business differentiators, technical architecture, partnership, implementation track record, legal terms and support model, the results can throw surprises. The Vendor that felt like the obvious choice sometimes reveals gaps that were invisible in initial demo or presentation.
- **Vendor Evaluation Framework:** The categories of evaluation matter. A functional assessment or business differentiators asks: does the system actually do what we need in the way our business operates? A technical assessment asks: can it integrate with our existing landscape, and does it scale? A legal assessment asks: what are the liability terms, the data ownership provisions, the service level commitments? Equally important is the deliberate assignment of priority and weightage to each of these categories, reflecting the organizations strategic objectives, risk appetite, and transformation goals, as not all dimensions carry equal importance in every context.

Each of these lenses catches different risks. Functional gaps discovered post contract signature lead to change requests, technical incompatibilities discovered during implementation lead to delays, legal terms discovered during a dispute lead to regret. The month spent in structured evaluation is an investment in avoiding all these.

Beyond the scoring, evaluation phase is also an opportunity to build relationships with the vendor teams. The people present during the sales process are not always the same people who will be on the implementation journey. Asking to meet the implementation team, the technical architects give clients an early indication about what the relationship will actually be like.

Phase 4: Negotiations Strategy (4 Months)

Negotiations Strategy

- Leveraging skills of Infosys' experienced Negotiating team
- Avoiding pitfalls of a typical ERP contract

4 months

Four months may seem a long time to negotiate, but ERP negotiations are not simple commercial transactions, they involve shaping a multi-year relationship between the organization and a vendor that becomes deeply embedded in how the organization operates. The terms agreed here will govern how conflicts are resolved, how costs evolve, how scope changes are managed and how the performance is measured.

One of the common mistakes clients make in ERP negotiations is treating them as a procurement exercise, driving for the lowest price and the most favorable terms, then signing. The result is often a contract that wins on paper and loses in practice. A vendor who is committed to meeting the letter of the agreement but not its spirit, and an internal team that has no shared understanding of what 'success' actually means.

Experienced negotiators know how to avoid some of the following pitfalls during the ERP contract proactively:

- **Scope Ambiguity:** Vague description of deliverables that allow vendors to claim scope changes for work clients reasonably expected to be included.
- **Milestone Misalignment:** Payment milestones tied to vendor activities rather than client value received
- **Support gaps:** Service level agreements that look strong on paper but contain carve-outs that cover most real-world failure scenarios
- **Change order dynamics:** Processes for managing scope changes that systematically favour the vendor in terms of cost and timeline

Experienced negotiating teams particularly those who have been on both sides of ERP contracts know where these traps live and how to address them before they become problems. Their value is not in being adversarial, but it is in bringing the vendor into a contract structure that genuinely works for both parties over the long term.

Phase 5: Contract Finalization (2 months)

Contract Finalization

- Leveraging Infosys Legal team's relationship with vendor.
- Clearly defined and negotiated Key Business Terms, Scope of Work, Deliverables, Milestones, Payment Schedule

2 months

Contract finalization is the phase where the work of the previous four phases gets locked in. It is also the phase most clients want to rush through, because by this point, they have been in the pre-implementation journey for nearly 10 months, and they are eager to start the journey. Resisting that urgency is one of the most valuable things a client can do. The two months allocated to Contract finalization are not a formality, they are the time during which the terms that will govern every difficult conversation of the implementation are established.

The five pillars of a strong ERP contract:

- **Key Business terms:** The commercial and legal foundation – pricing structure, payment terms, liability caps, IP ownership and termination rights.
- **Scope of Work:** A detailed description of what is being built, configured and delivered. A good scope document is unambiguous enough that a party coming to it fresh can understand exactly what is included and what is not.
- **Deliverables:** A tangible output – configuration, data migrations, training materials, documentation that demonstrate each phase of the project is complete.
- **Milestones:** Checkpoints tied to client value, not vendor activity. Milestones should represent moments when the client can evaluate progress and make informed decisions about continuing, adjusting or escalating.
- **Payment Schedule:** Payment Schedule tied to milestone achievements rather than calendar dates, giving clients meaningful leverage throughout the implementation.

The relationship between these five pillars is where the real leverage lies. Deliverables that are vague make milestones unverifiable. Milestones that are unverifiable make payment schedules toothless. And a payment schedule without teeth removes the primary mechanism clients have for keeping implementations on track.

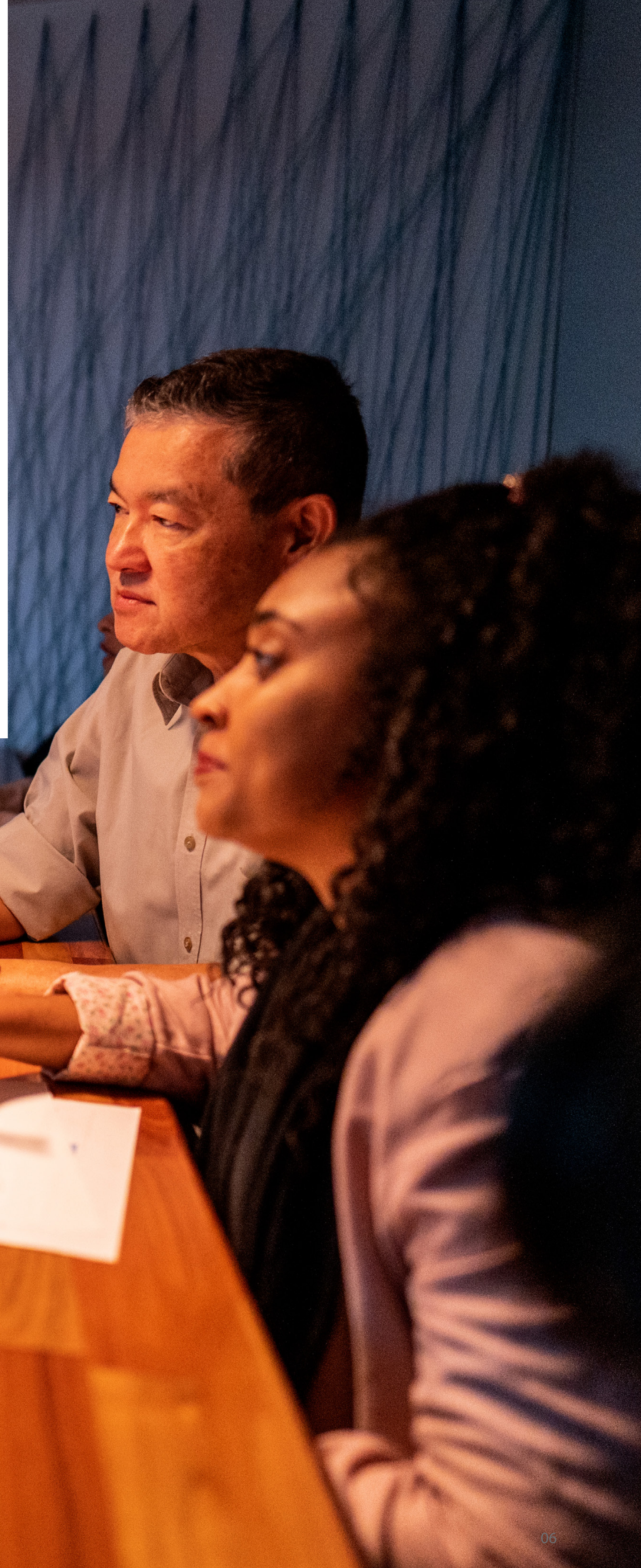
The role of a legal team with deep ERP contract experience in real implementations, not just in negotiations is invaluable here. They can identify language that appears benign but creates risk and help structure provisions that protect clients without making the contract adversarial.

Conclusion:

The most common misconception about ERP transformation is that value creation begins when the system goes live. In reality, the decisions made during the twelve months between the first RFP and the final signature determine more about the outcome of an ERP Program than almost anything that happens afterward.

Clients who invest in a clear business case, rigorous vendor evaluation, disciplined BOM rationalization, experienced negotiation, and precise contract definition arrive at implementation with an enormous advantage. They know what they are building and why. They have a vendor who understands the relationship is a partnership, not just a project. They have a contract that actually protects them, and they have a team that has been through something hard together and is ready for what comes next.

The pre-implementation phases are not a hurdle. They are the foundation. And the time invested in building that foundation well is the highest-return investment available in the entire ERP journey.



Where Clients unlock the value

Infosys experience shows 55–75% of ERP projects overrun budget. Almost always due to decisions made before implementation starts. The five pre-implementation phases below are where the real financial leverage sits. One of the major retail programs that we worked on, we managed to unlock nearly €15M (18%) in total saving during the pre-implementation phase delivering real value to the customer.

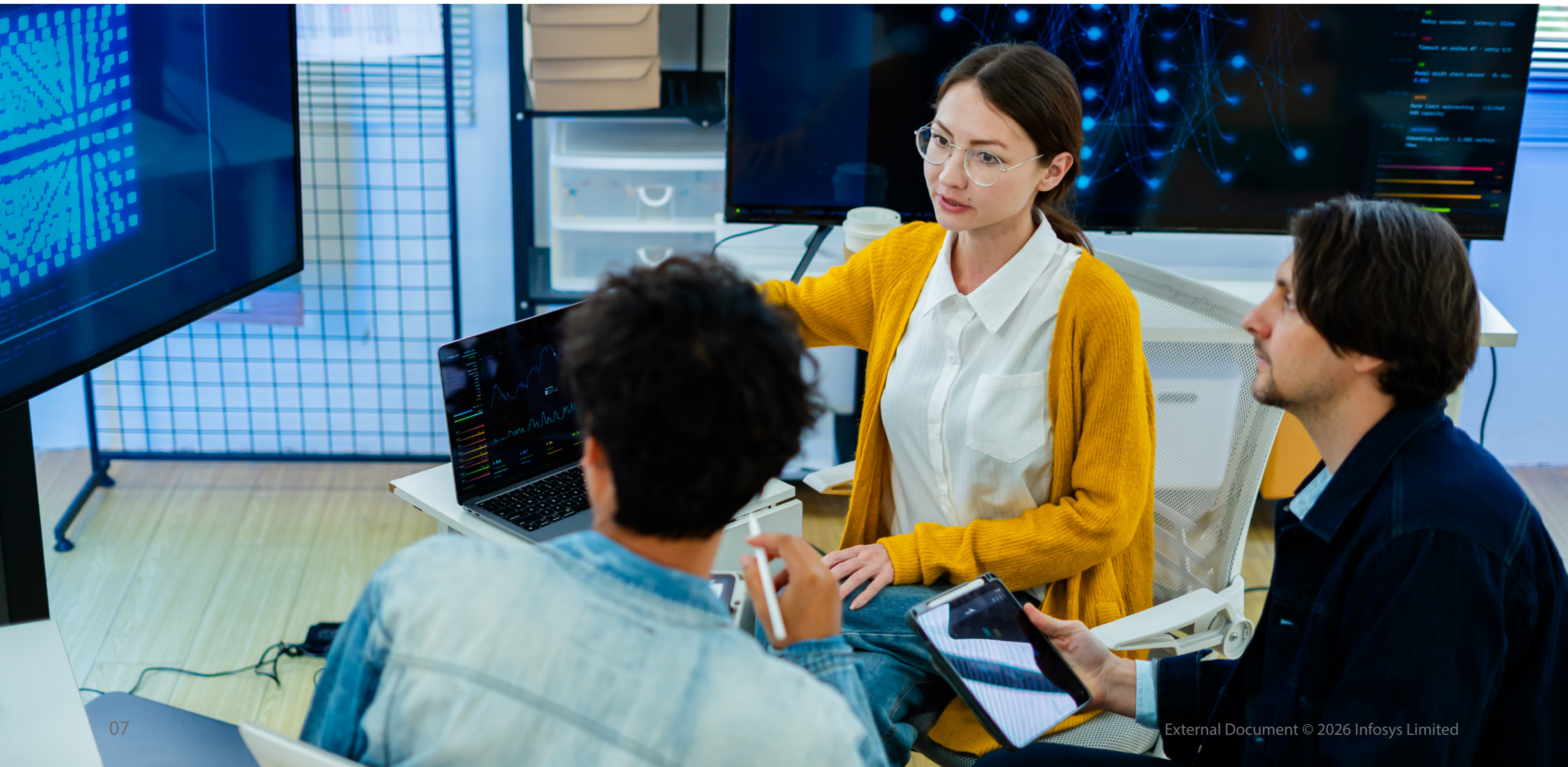
Phase	Role of Advisor (Client)	Benchmark Saving Available
Phase 1 – RFP & Vendor Shortlisting	Define a rigorous business case. Map Current-state pain points. Use Advisory experience to help filter genuine fits	Avoids 10-15% in rework costs downstream by setting the right scope from day one
Phase 2 – BOM Rationalization	Challenge every line item. Remove scope not tied to a documented pain point. Model cloud vs. on-premises TCO before positions harden.	10–20% project cost reduction. Wrong deployment model inflates 5-yr TCO by 30–50%.
Phase 3 Evaluation & Decision	Score vendors across functional, technical, and legal dimensions. Meet the implementation team — not just sales. Use structured scorecards to remove bias.	Prevents costly post-signature surprises. Undiscovered integrations mid-project add cost in later phases
Phase 4 Negotiations Strategy	Negotiate at fiscal quarter-end. Maintain competitive tension. Cap annual maintenance escalation. Challenge named user vs. concurrent license models.	20–40% savings on total contract value vs. accepting the first proposal.
Phase 5 Contract Finalization	Tie payments to milestones, not calendar dates. Lock in scope of work, deliverables, and exit rights. Cap maintenance fee escalation.	Prevents the scope creep and change-order dynamics that inflate programs by 30–50%.
Total illustrative saving on ~€85M greenfield retail implementation program		€15M saving (~18% on licensing and implementation cost)

83%
of organizations that did a pre-implementation ROI analysis met their ROI expectations

20–40%
savings on total contract value through strategic negotiation vs. accepting initial proposals

10–27×
return on advisory investment through negotiation, scope control, and contract protections

Sources: Panorama Consulting 2025 ERP Report, Gartner ERP Value Study 2024, Elevatiq ERP Negotiation Analysis 2026, Bizowie TCO Analysis 2025, Bluelinker, ERP Statistics 2026, NPI Financial 2024



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