Is Your Business Ready for ERP?

Focus Research

July 2011

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Executive Summary

Most firms begin as small businesses. As time goes by, a percentage of these firms grow and some grow very large. To drive and sustain this growth, they need an effective ERP system to manage their business.

When small businesses must confront change, they often face challenges to the capital structure, staffing, marketing and even technology aspects of their firm. While the smallest businesses may be able to exist with spreadsheet-based or entry-level accounting software, growing enterprises will want to adopt new technologies that are better suited for the increasing business challenges that a growing, larger firm is encountering. It is at this juncture that small businesses will consider ERP (enterprise resource planning) software.This white paper examines four key questions:
- How do we know we need a new ERP system?
- What delivery models are available for ERP software today?
- What are most important factors to consider in a modern ERP selection?
- What are the potential benefits to accrue to our firm with the new solution?

When Basic ERP or Spreadsheets Will Not Do

Small businesses will need a more comprehensive and functionally more powerful software solution when any one of several indicators is present. These include:

Headcount has grown, yet management can no longer oversee and control all personnel and functions. Often the owners/managers of small businesses can stay on top of all manner of financial and operational issues simply because of their full-time presence at the company and their close working relationship with their employees. But, as companies grow in size and take on ever larger numbers of employees, the owners/managers cannot adequately supervise the activities of every single employee. This is a critical juncture in the evolution of the business, as it indicates the need for the company to adopt more stringent controls so that the potential for fraud, poor customer service, supply chain disruption or other adverse business outcomes are reduced.

The time required to enter, update and/or reconcile information and current systems is growing out of proportion to the growth rate the company is encountering. In a nutshell, simple systems, like that of a spreadsheet, work best for simple business environments. As a small business evolves into a larger, possibly midmarket firm, it needs systems that were designed to reduce errors, increase worker efficiencies and worker effectiveness.

The simplest solutions on the market often fail to support some of the basic industry functionality a growing firm may need. As firms grow, nuances within certain business functions become ever more critical to the business and must be addressed appropriately. For example, a Midwest metals processing firm migrated from a very basic small business system to an SMB (small to midsize business) ERP solution because of the old software's inability to handle inventory and inventory variances. Many small business solutions may come preconfigured with a number of different charts of accounts for different industries; however, this is not the same as providing deeper vertical industry functionality (e.g., manufacturing scheduling or warehouse picking). New ERP systems, at this stage of a business's evolution, are often required because of the growing and significant vertical industry business requirements. These ERP solutions often possess this critical industry functionality and, even if some of this is lacking, these new solutions permit additional tailoring or customization, if so required.

Businesses may upgrade to ERP solutions because of new requirements or pressures from third parties such as bankers, taxing authorities or board members. These entities may not accept financial statements or other documentation prepared on systems, such as spreadsheets, that lack the controls and balancing rigor found in more advanced software offerings.

Other stakeholders, such as suppliers or customers, may trigger the need for the company to acquire a full-blown ERP solution. A small business may find stakeholders up and down the value chain demanding the company upgrade its software. These stakeholders tire easily when they are not paid correctly or in a timely fashion. They want to receive accurate bills and invoices. Overall, they want to deal with a more professional, efficient and effective firm.

When SMBs Use ERP Software

When a company graduates from its first software starter set to an ERP solution, the business owners/managers should be prepared for a number of changes that will impact their firm. These changes will be, for the most part, positive for the company and help prepare it for additional long-term growth.

Startups and other small businesses often lack well-defined processes, roles and workflows. It's not unusual to see these businesses staffed by numerous workers that act as jacks-of-all-trades. This is at the core of what makes so many small businesses successful: that is, these companies have individuals who are always willing to roll up their sleeves and dive into any aspect of the company to keep its fortunes positive.

But as the company grows, work and work processes will undoubtedly need to be better defined and better controlled. As a business grows, it needs to find greater reliability, higher efficiency and increasing effectiveness of all of its workers and work processes. ERP solutions are especially well suited for this type of environment. One CEO of a midmarket school supply company indicated that the company's only major internal fraud occurred before it brought in new ERP software and the attendant controls it put in place. This CEO advises other growing small businesses to never underestimate how vulnerable businesses are to such risks.

ERP and Small Businesses	
Why did your company adopt an ERP system?	
Process integration	**54%**
Resolve order processing issues	**50%**
Hardware & software obsolescence	**50%**
Resolve data duplication & inconsistencies	**38%**
Reduce stock/inventory excess	**35%**

Source: "Exploring the use of ERP systems by SMEs" by M. Tagliavini, P. Faverio, A. Ravarini, F. Pigni, G. Buonanno
http://www.apertus.com/downloads/Exploring_the_use_of_ERP_systems_by_SMEs.pdf

But as mentioned previously, there is another reason for having these well-defined roles and processes. These processes provide for tighter controls over payments, shipping, vendor choices, hiring decisions and so forth by defining the limits of authority and separation of duties. Fraud, embezzlement and other adverse business outcomes can be substantially eliminated in many firms with better software. These additional controls also provide a means of having others perform checks and balances on other people's work so as to free up the owners/managers to drive business growth. When owners/managers spend all of their time overseeing, they aren't focused on growing the firm.

New ERP software users should be prepared to be very flexible in designing and implementing new work processes and new controls. Business practices and methods that may have served the company well historically may not have been optimal or may no longer be optimal for the size of business that the company has become. Additionally, new

ERP software may showcase opportunities for the small business to utilize capabilities such as smartphones and third-party data in application areas that had no corresponding place in the business previously. While human beings generally loathe change, new ERP software will undoubtedly trigger new levels of business performance if owners/ managers are open to and supportive of these changes.

What You Should Expect in an ERP Solution

ERP software is rich in functionality. Most solutions offer substantial cross-industry functionality and many options to complete specific tasks. A typical solution contains the following cross-industry modules:

- General Ledger
- Accounts Payable (Purchase Ledger)
- Purchase Order
- Accounts Receivable (Sales Ledger)
- Fixed Assets

- Payroll
- Human Resources
- Customer Relationship Management
- Management Reporting
- Analytics/Business Intelligence

Other cross-industry modules that may be offered include:

- Inventory
- Capital Projects
- Credit and Collections
- Consolidation

- Talent Management
- Billing
- Order Entry
- Supplier Relationship Management
- And more

Beyond these cross-industry modules, many ERP vendors offer additional functionality to support numerous vertical industries. The most commonly supported verticals are in manufacturing and distribution industries, although a number of products have been created to support service industries, too.

What is contained within an ERP application software suite continues to expand. Today's more modern products include support for:
- significant numbers of business best practices
- tight integration with office automation productivity suites
- embedded collaboration technologies to facilitate the sharing of ideas, documents and so forth among workers and key external stakeholders such as suppliers, recruits and customers
- new technologies such as mobile telephony, social networking and more

For example, software buyers will want to examine the support of key applications, like sales force automation, with the different smartphones used by their employees today. The user interface on the device should be intuitive, relevant for the form factor of the device itself and contain the data and functionality needed by today's mobile, interconnected workers.

Newer ERP products also offer advanced analytic capabilities. While sometimes marketed as business intelligence, these tools are bringing together information from inside and outside the enterprise. The result of this is that analytic applications are capable of providing great insights into prospective customers, a company's supply base and so forth. Not only are these analytic applications producing great productivity aids for workers, they are also enabling

businesses to more quickly react to changing business conditions. Like the adage, "time is money", faster access to critical business trend information can mean millions in dollars of value to companies.

There are many benefits newer ERP systems can deliver. Some companies will experience lower implementation risk simply because of the availability of new cloud-based delivery models. Many products have made substantial improvements to the user interface. That change is lessening the training workload on IT as it rolls out newer upgrades or mobile versions of the ERP solution. New integration couplers are expediting the integration of new ERP solutions to other business applications.

Approximately 47% of small business owners send text messages to their customers. 36% of small businesses send status updates via mobile devices

(Rockbridge Associates, Inc., 2011)

When businesses implement ERP software, they should seek savings and benefits beyond just automation of manual processes and the efficiencies these produce. New ERP software should also help a firm achieve one of more of the following, too:

- increased sales
- improved sales force effectiveness
- improved sales closure rates
- reduced sales abandonment rates
- increased working capital
- faster cash collections
- increased inventory turns

- decreased inventory on hand
- reduced stock outs
- increased average order size
- reduced shrinkage
- reduced production costs
- reduced sales discounts
- etc.

Making a Smart ERP Selection Decision

ERP software decisions are business, technical, financial, political, process and organizational decisions. Because these solutions are broad in their scope and reach deep within the organization, owners/managers of small businesses should involve a broad-based group of employees in any selection effort.

Before any vendors are contacted, a business should identify individuals within their company whom they believe can lead an open-minded and fair software evaluation effort. This core group of individuals should be charged with performing some initial research as to the types of solutions that are available in the market generally and creating a long list of potential vendors the company should consider. This long list of vendors should contain software products that are relevant for: the company's size; the vertical industry the company operates in; the delivery method and software solutions the company may desire; the level of local and software vendor support desired; and other critical factors.

This evaluation team should research the ERP software marketplace further so that it can whittle down the long list of vendors to a short list of approximately two to three software solutions. As part of this research, the evaluation team should review the websites of long list vendors. They should request customer interviews and case studies and check the references of appropriate implementers or resellers as required. Basic questions such as software pricing and functional/industry availability should be answered at this stage. Once the research is complete, the evaluation team should brief the owners/managers of their findings and present two to three vendors for additional, detailed evaluation.

The evaluation team should consult with the company's accountants to ensure that they have experience with this software package and/or agree with the choice of vendors on the short list.

The most important criterion the valuation team will need to assess will be the risk associated with any given product and its implementation. No business ever wants to face a disruption in its business in activities due to a software issue. As result, a software evaluation team must make risk management and risk mitigation key priorities in evaluating different solutions, different implementation methods, different delivery methods and different implementers.

New ERP Delivery Models

Generally speaking, ERP software can be delivered in three broad methods: on-premise, cloud and hybrid methods:

1. **On-premise** delivery models assume that businesses will license ERP software and install it on computers at their location. ERP software users are responsible for buying computer hardware and software for these solutions. They are also responsible for applying any software upgrades, patches or fixes provided by the software vendor.

2. **Cloud** delivery models allow the software user to use application software on another firm's computing equipment. There are many different kinds of cloud delivery models though. Some simply provide a place for the software to run. Some clouds are run and operated by ERP vendors. Is cloud cheaper? It can be if the cloud provider also supplies the database software, security software, backup and other critical technologies.

   The most straightforward cloud solution is the hosted application. In this situation, a software vendor makes its on-premise software available on a third-party's cloud data center. Within this environment, customers do not have to acquire computer servers and other key computing hardware. Depending on the solution, some of these cloud solutions may not require the customer to acquire database licenses or systems management software as these may be bundled into the offering. The key benefit of this delivery method is to help eliminate large up-front computer hardware purchases on the part of a customer. Pricing for these solutions is often done on a monthly basis and may scale up or down based on a customer's usage of the product. Another benefit of this delivery model is that the customer retains control over the application of upgrades, patches and fixes. This is due to the customer having its own copy of the software. This approach affords lots of control and permits the user to make extensive modifications to the product. However, the customer will likely face higher maintenance costs as the customer will need to apply all changes to the software.

   Some cloud solutions are multi-tenant. In a multi-tenant solution, only one copy of the software is used by many customers concurrently, yet their data is kept separated. The key benefit to this is that software upgrades and maintenance are provided by the software vendor and are implemented simultaneously for all customers. This environment means that software users to do not have to perform software maintenance and upgrade activities with their own internal staff. This could save some small businesses from needing to hire additional IT personnel to support their ERP software.

3. **Hybrid** solutions represent the third kind of delivery model. In a hybrid environment, software vendors may offer multiple methods for deploying the software. It can be used on-premise, hosted on the vendor's cloud or on another firm's cloud. These solutions may also possess the flexibility to be initially implemented on a cloud and subsequently moved back to a customer's own data center. This flexibility in going from on-demand to on-premise (and in some cases back to on-demand) gives companies the ability to bring an application in-house should they anticipate the need to make modifications that exceed the capabilities of the standard cloud offering.

Some hybrid ERP solutions can take a different form. For example, a vendor could offer certain of its modules (e.g., general ledger) as an on-premise application while other applications (e.g., customer relationship management) are offered as hosted or on-demand solutions. These products are often designed to work together even though some ERP functionality and data may reside on the customer's data center while other data and functionality resides on a cloud environment.

Conclusion

- As small businesses grow, they will need newer, richer ERP software technology.
- For those firms evaluating new solutions now, be advised that ERP solutions have undergone significant changes in recent years and more changes (e.g., delivery models, support for mobile devices) are likely to come.
- ERP software selections should involve several people within a company, each conducting research on potential solutions and delivery models.
- Benefits of ERP software will likely include process efficiencies, but may also include better controls, lower business risks and significant operational and financial improvements.
- Smart ERP software buyers will want to spend time understanding the process and workflow implications of potential new solutions.

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- reasons why you should or shouldn't care about specific emerging solutions
- business justifications why you may or may not want specific solutions

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