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White Paper

Enterprise Resource Planning Solutions for Growing Businesses



What is Enterprise Resource Planning?

Most successful small and medium-sized businesses reach a point when they must make hard decisions if they want to continue growing and maintain a competitive edge. As such companies expand and develop, they can no longer rely on small-scale IT platforms or out-of-the-box software to handle their increasingly complex business processes.

Brisbane-based nut and dried fruit producer Trumps, for example, faced this situation. Having grown rapidly in a short space of time, the manufacturer was struggling to keep track of its warehouse stock. Its solution was to implement an enterprise resource planning (ERP) system to manage its growing pains.

ERP software integrates departments and functions across the business – from account management, inventory, sales and purchasing to warehousing, manufacturing operations, supply chain and customer relationship management – into a single computer system. With an ERP system, a company's entire operation becomes more visible and its decision making more streamlined. This in turn reduces costs and returns the business a healthier profit.

In the past, ERP systems were the preserve of large corporations and government departments because they were too expensive for smaller companies. However, advances in online business, hosting and pricing models have placed ERP well within the reach of many SMEs. In fact, any company turning over more than \$10 million a year would be wise to implement an ERP solution. Or at the very least, think about it.

Does my business need an ERP solution?

Before committing to an ERP solution, a small business has a lot to think about. You should consider:

- What business problem are you trying to solve?
- Can the company do more for less?
- Will the business be more effective with an ERP solution?
- Are your competitors doing this?
- Can you grow the business using existing tools and methods?

It is critical to understand the challenges your business faces. ERP vendors cannot help you implement an effective solution if you're unclear what needs to be done. But vendors can play a key role in getting to the bottom of your business to find the problems you face. It's important to choose a vendor that has first-hand experience and intimate knowledge of your industry. Pre-sales staff must also understand the issues that specifically affect your business.

Vendors usually conduct this initial investigation without charge because it is a valuable first step on the path to implementing an integrated information system. By speaking to staff across the company, vendors will quickly identify where their ERP system can add significant value to the business.

Which solution is best?

Large corporate ERP systems typically take several years to implement, requiring enormous teams of experts. SMEs can neither afford the time nor money. However, several off-the-shelf, modular ERP systems are available, which can be customised to suit the needs of each customer. Using a pre-configured solution takes substantially less time to install and helps SMEs avoid a cost blowout.

Depending on your organisation's needs and budget, you may want to only start with the core modules and add further functionality over time. Typically, the core will be an accounting framework with industry-specific modules, such as inventory management for distributors, point of sale for retailers, material requirements planning for manufacturers and project costing for professional services.

While this may not immediately achieve the full benefits of an integrated solution, it gives companies time to learn how to best use the system.

No single solution works for all companies and there is no magic bullet. But in selecting an ERP system that's right for your business, there are common questions you can consider:

- Functionality – what does the ERP system need to do?
- Flexibility and integration – does it give you everything you need?
- Single source – is this a properly integrated solution?
- Vendor credentials – is the vendor right for you?
- Support – what back-up does the vendor provide?
- Implementation expertise – who's looking after your business?
- Investment cost – how much is your business up for?
- Solution type – what's best for your business?
- Upgrade path – is it necessary?
- Technology – what do you really need?
- Software as a service – how can you get more out of ERP?
- Next-generation ERP – what is in store?

Functionality – what does the ERP system need to do?

This issue lies at the heart of which solution you should choose. The ERP system must be able to tackle the specific and immediate needs of your business, as well as requirements which will foreseeably arise in the future. It is the key to driving your competitive advantage and enabling the business to operate more efficiently and profitably.

For example, lighting supplier Telbix needed to provide a more personalised service and respond faster to customer inquiries. An ERP system gave Telbix increased visibility, allowing it to almost double the number of orders it could turn around in a day.

Try to avoid customising more than 30 percent of any package's functions. This adds complexity and cost, which makes the system more difficult to upgrade. Take care also if vendors offer an R&D rebate for testing functionality they're looking to include in their products. This may seem less expensive up front, but it can be risky.

Flexibility and integration – does it give you everything you need?

An integrated, modular solution allows you to build an ERP system up over time, while ensuring all modules can communicate with each other in real time. A modular approach is most likely to streamline processes and deliver faster access to business information without having to change the underlying functionality.

Be wary, however, of large ERP vendors trying to sell cheaper 'industry template' versions of their software. These are usually scaled-down versions of the way large enterprise customers work. Believe it or not, the needs of medium-sized companies tend to be *more* complex and demanding than large organisations. As well, there's little benefit adopting a different business model, even if the vendor espouses it as industry best practice, if your company is already more innovative than its competitors.

Frank Gens¹, Senior Vice President of research firm IDC, observed that large IT vendors looking to break into the SME market "will need to shift more than the size of the products ... they'll need to transform their corporate culture.

“The business model for those [big] companies traditionally is a relatively small number of very big deals. And to now change your approach, and your operations, and your strategies, is quite a culture shift and a business shift. We’ll see how they do.

“History has shown that it’s much easier for the small guys to scale up than for the large guys to scale down.”

Single source – is this a properly integrated solution?

Ideally, one vendor should handle the entire solution. It’s important the vendor has a proven track record and that ERP is a core part of what it does.

Many small-business ERP systems are presented as ‘integrated’, but in reality consist of modules from a range of third parties which have to be bolted together by the service provider. Stand-alone retail point-of-sale systems are often sold this way, with third-party core finance and inventory management systems connected. This kind of solution can cause serious support troubles if numerous suppliers are involved.

Vendor credentials – is the vendor right for you?

Choose an ERP specialist that is familiar with companies like yours. Don’t worry if the vendor is not a household name. Talk to your peers and industry associations. The ideal vendor should be a smaller, local player with extensive industry expertise and a track record of servicing SMEs, not a software giant with an overblown marketing budget.

The ERP market has undergone considerable consolidation in recent years. When two companies merge, they may offer a choice of ERP suites but not be equally committed to them. This could leave customers with ERP systems that become obsolete or are expensive to upgrade.

Ask prospective vendors for at least three customer referrals, preferably companies that have used the system you’re planning to install for more than two years. Use the web to find some customers the vendor didn’t tell you about, and contact them.

It also pays to check a solution provider's history. Ask the vendor for financial information and if it has any outstanding legal actions against it. If you have access, use firms such as Dun and Bradstreet to check the vendor's credit rating.

Support – what back-up does the vendor provide?

The vendor's professional services team should be very keen to provide feet-on-the-ground support. Its consultants should work with your team to get the most out of the ERP software, provide training and help fix the system when things go wrong.

Make sure the vendor charges local rates for consultants. Unless you are located outside a major city, do not agree to pay airfares or accommodation for the vendor's experts. These are its business expenses, not yours.

Telephone, email and web support for general queries is commonly bundled into a support contract. It's likely you'll have to nominate a select group of staff who can call the vendor for help. Don't be surprised if the contract limits the number of incidents a month or the hours of telephone support.

Don't try to use the vendor help desk for 'free' training. Vendors will push back if they feel your employees are taking advantage of the support team to wangle free consulting.

Finally, ask the vendor how much it can change the software to better reflect your business needs. You are unlikely to convince an international vendor to update its core code, but local vendors are more amenable, especially if they see the opportunity to drive more sales.

Implementation expertise – who’s looking after your business?

Large implementations can sometimes fall under the ‘Happy Bus’, where a few experienced and expensive team leaders manage a large group of significantly less experienced junior staff – who are mysteriously not much less expensive. Use the sales process to look carefully at the skills and experience of the people who will be doing the job. Ask to see their CVs if you need to.

Don’t pay vendors to train their staff on the job. If you have doubts about the skills of the people doing the work, talk to the vendor immediately.

Investment cost – how much is your business up for?

As a ballpark figure, a successful ERP implementation takes up at least one percent of your revenue for the total project cost. The price should be divided about evenly between software, hardware and implementation services. Software maintenance and ongoing support are typically separate line items, ranging between 15 and 20 percent of the licence fee.

When you receive a proposal, make sure it covers all the items you discussed with the sales team. If the vendor deletes an item to save on costs, such as using your staff to migrate data from your existing system, ensure you get a written project impact statement so you can fully understand the implications of such an action.

Return-on-investment (ROI) figures are notoriously unreliable. You are better off asking other customers how the system changed their business practices than studying vendor-produced ROI papers.

Solution type – what’s best for your business?

Choosing between best-of-breed and fully integrated systems is a perennial argument. With a best-of-breed solution, you buy specialist products for each business function and bolt them together. Fully integrated products are typically not as feature-rich, but cost less to buy and support because they come from a single vendor.

SMEs should approach best-of-breed projects critically. Most smaller businesses lack the skills, time and money required to connect the products and manage a complex, interconnected system in the face of changing business processes, industry requirements and customer demands.

Upgrade path – is it necessary?

Before you pay for software maintenance, talk to other customers about their experiences upgrading the product. Few upgrades are painless. It’s important to find out whether the vendor provides value for the maintenance charge. Does the new functionality add value to the business? Do you need to enlist an expensive team of consultants to handle the upgrade?

Technology – what do you really need?

There is no doubt technology can streamline your business processes, help retain customers and improve profitability. But technology for its own sake is a waste of money. Vendors use a range of tricks to hide unnecessary, unproductive product features or promote the next release as vital for your business.

Make sure the vendor is not offering you a product that needs to be upgraded to a different system in the future. One international ERP company has four versions of a product under the same brand, but in reality they are four entirely separate applications from different acquisitions. In this situation, if your business grows you will likely need to ‘upgrade’ to another product, essentially requiring a complete new implementation.

Also beware of vendor plans to upgrade to ‘new technology’ in the future. While access to this new technology may be included in your maintenance agreement, it is basically

considered a new implementation with additional features to pay for, at least in the first release.

Software as a service – how can you get more out of ERP?

ERP isn't just about buying and implementing a sophisticated software package. An ERP system needs to be properly managed and maintained.

Some vendors offer hosted or managed services to look after your ERP system and maximise its effectiveness, leaving you to focus on building your business and maintaining a competitive edge.

A hosted solution requires less in-house technical expertise, reduces the cost of managing infrastructure and provides guaranteed levels of security, availability and resiliency, as well as a single point of contact.

Next-generation ERP – what is in store?

When looking to implement an ERP system, it's important to think ahead. New-generation ERP systems incorporate an intelligent enterprise alert system (EAS), which monitors changes within the business. An EAS sends highly targeted tasks – called exceptions – in real time, which enable staff to make more informed decisions that can impact on a company's entire operation.

The system can handle a range of exceptions automatically, for example it can warn of delays, email reminders, send alerts and notify of pickups. It can help a company quickly identify problems, stay on top of them and recommend corrective action.

For example, if a company like Kathmandu runs out of stock of a particular item, its warehouse can be alerted immediately by email. Or staff can be notified if a customer is about to qualify for a reward on his or her next purchase.

A final word of advice

An ERP system is a major investment for any business, particularly a smaller one. A well-planned and implemented ERP system can change the way you do business and significantly improve profitability. But there are pitfalls if you have not prepared properly.

Make sure you do your homework, have clear objectives from the outset and prioritise your expected outcomes and solutions. Research potential vendors carefully and ask plenty of questions. It may take a little longer, but it will prove vital to the long-run success of your ERP implementation.

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¹ "Top 10 IT Predictions for 2007", Datamation, 5 January 2007