

# What Mid-Market Companies Should Know Before Buying ERP/Financial Software

Part I of the IDT Briefing Series



Much has been written by vendors, journalists and industry analysts about the plethora of available financial systems (or ERP packages), both the positives and pitfalls.

But when it's time to get your hands dirty with the review and decision-making process, this first Briefing of our Series can help.

- Better define objectives
  - Know where to begin
  - Improve cost management
  - Integrate with operations
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## What Mid-Market Companies Should Know Before Buying Financial Software

If you've investigated financial/accounting software you know you have choices. But wading through your options – and understanding the differences between them and what they mean to your business – isn't easy.

You may be at the starting point of upgrading from a basic small business tool like Peachtree® or QuickBooks®. Or you're seeking greater functionality than you're getting from a home-grown or off the shelf system, because it can't keep up with your growth. Larger mid-market companies may have multiple business units or subsidiaries that need to consolidate or you may be looking for new ways to help achieve compliance with new regulations. Perhaps you've been evaluating larger systems like PeopleSoft®, Oracle®, SAP®, or Microsoft® Dynamics GP (formerly Great Plains). Regardless of where your company falls in the spectrum, *every* business wants to improve operations, remove inefficient processes and eliminate bottlenecks to improve profitability.

Yet financial software (or an Enterprise Resource Planning system) is not an instant cure-all. Making the right investment requires some analysis of your needs, options, *and* a broader view of how data from other departments will interface with your new system.

As an advisor and independent system designer for hundreds of mid-market companies, IDT Consulting has compiled some insights for financial executives who must manage the process.

### SECTION ONE

- Business problems
- Business objectives for your IT investment
- Cost and infrastructure considerations

#### Identify Your Business Problems *Before* You Select

Overlaying new technology on internal processes that are broken will not solve the problem, *regardless* of the system you ultimately select. Before you get into a comparison of different system features and costs, it is imperative to first closely examine the business problems you are attempting to solve with a new ERP solution and their root causes.

Ask yourself and your team the following:

**What are the pain points?** What are your goals for improvement? Better reporting, automating POs, achieving compliance, solving inventory tracking problems? Running through a Requirements Analysis for your financial department is an opportunity to put all the goals on the table, as future aspects of your system should draw information from *every* part of your company's operations. Pains can hide in any corner. Go outside the selection committee and talk with those on the front lines of the business, as well as with representatives of every area of your firm.

***Example:** Companies want to reduce costs. Using outside accounting firms to generate reports can be expensive. Financial systems permit reports to be generated internally, with significant savings. A food franchise company saved \$80K in nine months by reducing outside accounting fees.*

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- **What can't you do now?** Or, what CAN you do but it takes time and money to handle (for instance, manually entering data from one system to another)?

***Example:** Companies want to save administration time, especially duplicate data entry. Financial systems can automate manual steps that often are a duplication of effort. For example, a business supplies distributor had a separate system for creating invoices to meet industry standards. It then had to take those invoices and manually enter the information into its accounting system. Today, their new system handles invoice creation and entry quickly and automatically, saving the company 40 hours per month in data-entry labor and reducing data-entry staff by half.*

- **What are your business's strengths and weaknesses?** Look at your strengths as a whole, and by department, to determine where best practices can be followed. What should you be doing more of? Less of?

Weaknesses can include the big issues you are facing, but should also address the minutia. How well are you handling daily transactions with customers? What is your payroll process? How efficient is shipping? Taking a hard look at day-to-day processes will give you some of the criteria you'll need to decide the type of system you want to build for the long-term.

***Example:** Companies want to connect different areas of their business. Perhaps the biggest benefit of ERP systems is the ability to have a complete picture of your business - enabling everyone to have access to needed information. With information integrated all in one place, and financial reports readily available, you can begin to be proactive about your business decisions. It is easier to track profits, identify areas of rising costs or weakening profitability and make changes accordingly.*

- **If you have outgrown your current financial system, what aspects are most lacking? Most desired?** Growth commonly puts a choke-hold on lower-end accounting software systems. Some companies need certain features; others don't. Identify areas in which you want to see improved capability, including top-line reports.

***Example:** Companies want better audit control. Moving from a small accounting or bookkeeping system to a full accounting/ERP system will result in the creation of audit trails and overall, better controls. Simple bookkeeping solutions may permit deletions. This is dangerous not only for dishonest employees, but if mistakes happen -- if an invoice gets deleted by accident, for example -- you'd never know because deletions don't show up. As far as the system is concerned, the invoice was never there in the first place. A financial system that allows controls to be circumvented - whether purposefully or by mistake - will make compliance with the Sarbanes-Oxley Act more difficult to achieve.*

- **What is your vision - your three, five and 10-year plan?** Your company's goals for growth and infrastructure improvements can and should affect which financial system you select. Envision how your company will look and operate in the future, and plan ahead.

After you have identified your business problems, seek agreement among the management or project team about which should be addressed by the new system. You and your advisor (or product vendor) can then begin to review potential technology solutions.

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**THINK ABOUT THIS:** If you see your own firm in any of the above scenarios, a more sophisticated financial software system can certainly help address them. But the system can't operate to its fullest potential unless it is truly integrated with the processes that feed it (incoming) and those that follow (outgoing).

Clearly, a great deal happens in a typical accounts payable process *long before* the invoice transaction can ever be entered into the ERP system. This is where the vast majority of the problems or inefficiencies exist within the AP process, and where substantial cost-savings can be realized -- but *if and only if* it is given proper attention.

Surprisingly enough, few - if any - of the mid-market (and larger) ERP vendors take the true broader view or offer viable solutions, simply because that is not their business.

*Therefore, consider how your new financial system will accommodate the 'incoming' and 'outgoing' processes (and might we mention, future<sup>1</sup>). Otherwise you may find yourself purchasing a system that you believe "automates" your AP process, only to find your automation 'starts' and stops' in the middle of a larger process. Briefing Two will provide insight into end-to-end automation of all transactions as they relate to financial controls for your company.*

<sup>1</sup> Future concerns for mid-market companies are many, and include Sarbanes-Oxley compliance -- whether externally or internally mandated. Financial systems alone cannot ensure compliance.

### Technology Objectives for the Non-Technical

With your business problems identified, you can gain a more accurate grip on your business objectives for the system you'll choose.

What do most mid-market companies want from a financial toolset? Here are several commonalities:

- **The greatest functionality for the least cost.** And further, functionality that will have immediate impact on the business, versus bells and whistles that don't apply.
- **The ability to customize.**
- **Ease of use.** Going from a small accounting or bookkeeping system into a more sophisticated ERP system can be a tough transition because things are so different. Make the transition easier by selecting a system that is easy to use and selecting a consulting organization that can guide you through the process.
- **Scalability.** The software system you choose should fit your needs, and your budget, both today and as you grow.
- **Trusted technology that will be here for the long-term**
- **Service and support from a trusted advisor.** Lean internal IT staffs can necessitate having an external advisor to steer the company in the right technology direction and advise it about product choices and ways to achieve efficiencies, without gouging them in costs.

How well do available financial systems stack up against these interests? The most well-known systems are the largest: PeopleSoft®, Oracle®, and SAP®. Designed for large enterprises, these providers have recently produced scaled down versions for the mid-market.

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While every financial software tool has similar functionality, the biggest obstacle with those grounded in larger enterprise designs remains cost. All are typically well beyond the budgets of most mid-size organizations. Granted, cost should never be the only factor. A careful evaluation will show that more affordable options that are just as rich in functionality and scalability are available. If you've done your homework (your business pains and objectives), you're on your way to making a more informed choice.

**THINK ABOUT THIS:** If you don't need it today, don't buy it. Invest in a system that suits your needs now and in the future. It should be flexible, scalable and able to fit your budget.

Companies err by investing in a larger system with capabilities they don't immediately need because they anticipate growing into it. For example, a software company was spending \$28K per month for a hosted large financial system, reasoning that it should go with a big-name vendor to accommodate growth. Rather than making sure the system matched what the company needed initially (and thinking about adding functionality later), they made an investment that was costly and ultimately, unnecessary. Upon realizing that they had viable options, the company switched to an in-house system that better fit their real requirements, saving significant dollars without hindering future growth.

Another important overall consideration is total cost of ownership: the reality of converting from a current platform to a new one. All the accounts, transactions, history, inventory, and other data must somehow get into the new system. As you can guess, this alone can create real headaches. Then add the many steps that follow before a new system can go live (system engineering, integration, testing, training, etc.) and you have a series of real cost-drivers. It's easy to be surprised by the add-ons.

**THINK ABOUT THIS:** Leverage your current technology infrastructure for the best ROI.

Systems that rest on their own database, web portal, CRM, etc. represent potentially substantial new costs: more software licenses, hardware, training or hiring of new personnel. And infrastructure shouldn't be looked up as simply current hardware or software, but rather people infrastructure - or the organizations' *intellectual capital* as well.

Also, look for financial software packages that include simple customization tools to help make conversion or integration as efficient as possible. Integration modules are available from most software vendors, but those from the well-known system providers tend to be more complicated.

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## **SECTION TWO**

The complexity of available technologies, their fit with your infrastructure and budget, and most importantly their ability to solve your business problems leads many mid-market companies to rely on those familiar with the options and skilled in making the entire system work without glitches. IDT Consulting's advice extends in this next section to where to begin, and what to expect regarding budget and timeline.

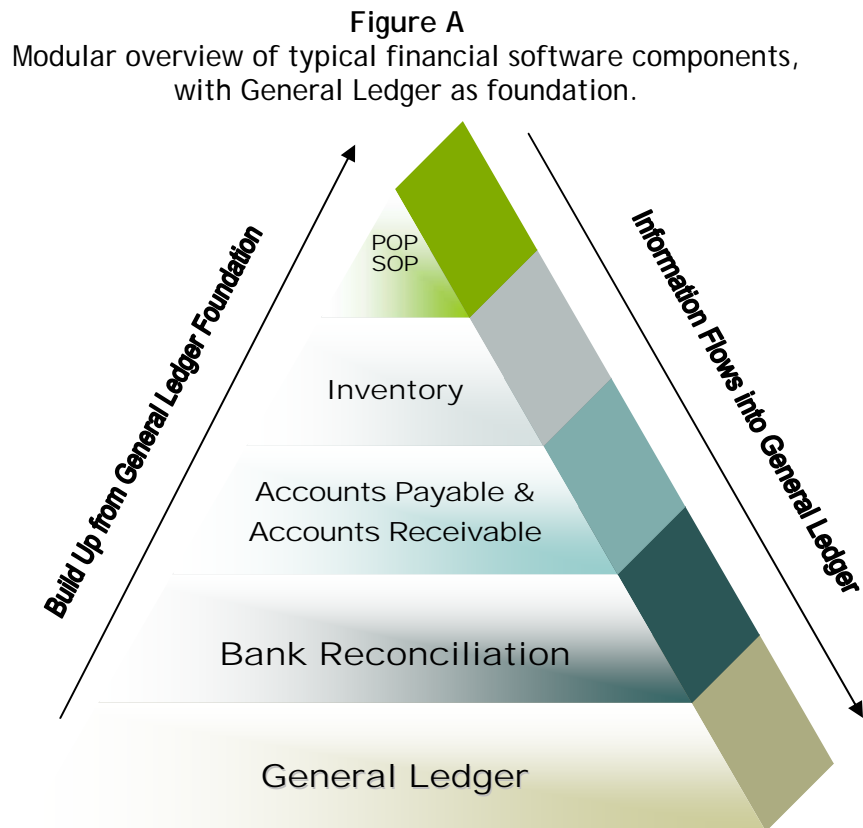
### **Where to Begin with Your Financial System**

An effective mid-market ERP system should grow with you. Because a selection of different modules (banking, sales, purchasing, inventory, etc.) are available, taking a phased -- or building block -- approach to your investment makes sense.

But how does this work? Which "phase" do you do first? When does the next phase start?

The answers to these questions will be answered by identifying your company's pains and needs (see Section One) as well as scheduling drivers. These can include when support for the previous system will end, how much time you prefer to allot for testing, and the like.

Generally speaking, start with the foundation: the General Ledger. Whatever other areas of your business you tie into the ERP system, data eventually flows back to the General Ledger (see Figure A). Also, data categories that are set up in the General Ledger dictate what will happen in other modules.



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To illustrate how a phased approach looks at a typical company:

Company ABC schedules the Go-Live of General Ledger and Payroll on January 1<sup>st</sup> to ensure that all their W-2 reporting is on the same system. Company ABC's fiscal year ends July 31<sup>st</sup>, so they schedule the Go-Live for Accounts Payable and Accounts Receivable for August 1<sup>st</sup> so that those systems have the full fiscal year accounted for.

A custom middleware integration piece is added later to eliminate manual data entry. As time passes the system expands, building on each previous module. Company ABC adds functionality as it is needed, on a schedule that is manageable both from a time and money perspective. Training is not overwhelming for the daily users, and because the budget is also spread out over time, the investment is easier to make.

An experienced software provider or system advisor should work closely with your team to develop and recommend steps and modules, again based on your business problems and system objectives.

### Advice for Budgeting

Understanding that you can purchase in phases, what level of budget should you anticipate, and, what is your timeframe? Identifying these is extremely important for both evaluating potential vendors and solidifying internal support.

If you have no idea about costs and need to set a ballpark range, typically initial mid-range ERP systems start at \$75k on the low-end to \$500k on the high-end<sup>2</sup>. On average though, the investment for most mid-market systems falls in the range of \$150K. As you plot your budget, you should anticipate related costs such as a conversion from existing systems, integration with other critical business systems, and ongoing, recurring costs such as technical support, maintenance and upgrades (see Figure B for further questions to ask regarding costs and more).

As the company's financial executive, you and/or your CIO will have budget approval authority. If you are not closely involved with the selection process, ensure that the team leader keeps you updated on every aspect of the project and expected costs.

#### Figure B

##### Key Questions for System Vendors

- What determines the software price? Is it per seat, per user or per processor?
- What additional costs will I incur over the next few years to maintain the system?
- What is the turnaround time for bug fixes?
- How often are software updates released? How are customers notified?
- Is the proposed software scalable in design?
- Can the software be customized to meet your business needs?
- Can the software easily integrate with other systems?
- What are the typical hurdles that you can expect with your planned implementation?
- What are my support options?
- Ask for references. Ask for information on one or more long-term accounts as well as recent accounts.
- What is your approach and philosophy with respect to training?
- What are the vendor's project-management capabilities? Does it have expertise in all aspects of the software project?
- Examine the financial health and market position of the prospective software vendor.
- Inquire about the vision of the software vendor and their products.

<sup>2</sup> Costs for systems vary greatly. Every system should take into account your company's unique requirements and depending on your needs, your system could be less or more than the range mentioned here.

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## Cost/Benefit Analysis

As with any major purchase, the investment in a new financial system must show a measurable return before the expenditure is approved. You can demonstrate ROI with a cost/benefit analysis (CBA).

When figuring your CBA, look at both the internal and external costs. Current administrative costs in the accounting department are a common area of savings. Payroll processing, for example, is frequently a time-consuming task. At one food franchise firm, the process consumed two full days of labor. With the more sophisticated capabilities and automation made possible by its new financial system, the firm reduced payroll processing time to just two-three hours. A close look at costs like this - the true costs of doing business with your current procedures - should give you hard numbers to work with relatively easily.

Again, external costs - particularly fees paid to your accounting firm - are typically also reduced with new software.

**Figure C**  
Stages of financial software implementation usually include:

- Project Planning
- Scope and Constraints
- Kick Off Meeting
- System Orientation
- Integration Planning
- Module (Application) Planning
- Conversion Planning
- Site Assessment and Installation Planning
- System Design and Solution Building
- Installation and Testing
- Company Configuration
- Database Administration Plan and Disaster Recovery Testing
- Application Setup and Application Testing
- Application and Tools Training
- Special Projects and Customizations
- Application Walk-through
- Coaching
- Go-Live Status
- Go-Live Support
- Project Completion
- Ongoing—Documentation, Status

Your CBA should also take into account the financial impact of how the new data and reports coming out of your system will benefit management. What will be the outcome of having a real-time, big-picture view of the company's financial state? Contrasting management's ability to react quickly to problems, instead of only seeing months' old data, can add to a compelling case for - the purchase.

Running the numbers will allow you to reach a conclusion such as: "the cost of doing business under the current model is \$xxx,xxx over XX years. With the new system in place, we expect current operating costs to be reduced by one-half of one percent annually, and our revenue to increase by one-and-one-half percent. We anticipate the new ERP system will pay for itself in two years."

### Implementation Steps

Your provider - whether a direct software vendor or system integrator/consultant - should have a proven methodology for implementing your system that clearly states the path that you'll take.

While the main path is essentially the same for every company (see Figure C), plan specifics will differ based on the system, budget and

needs. For instance, if starting with the most basic system, you may require fewer Special Projects and Customizations. Or, perhaps you have staff members with previous experience using the same financial system. In this case, you may be able to eliminate some training or

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coaching. Your vendor or advisor should be willing to work with you to make the plan fit your unique needs. The timeframe typical for implementing basic General Ledger and Financial system modules is 60-90 days. Additional modules, such as distribution or manufacturing, will usually require another 60 - 90 days.

### **The End Game: A Smooth Transition**

Aside from choosing the right financial system, the ideal is of course that your company will experience a smooth implementation and conversion from the old system to the new, and that it will all happen on time, within budget and without costly surprises or problems.

If you have chosen a financial system that operates on the same platform as the rest of your company, integration between them should also go smoothly. Integration of a different platform will take more work, and more time, but can be done provided the integration team has the expertise.

Finally, you will want to assure your staff is adequately trained to take advantage of all the features and functionality of the new system.

The end result should be improved processes and a financial department that operates more efficiently. Company executives should see immediate impact on their ability to run the business better because they have critical financial information at their fingertips.

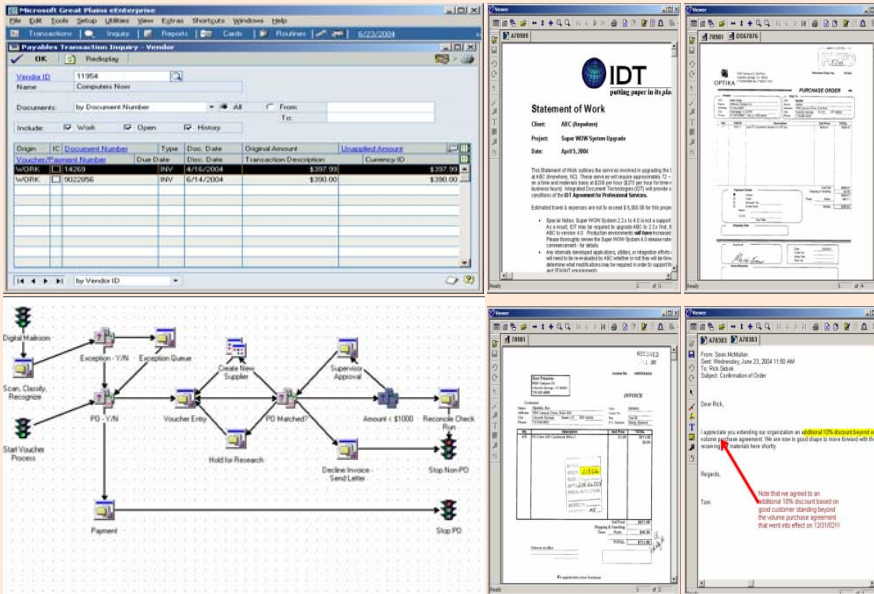
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**Next in IDT Consulting's Series of Mid-Market Briefings: *"How Distributed Web-based Document Capture, Automated Accounts Payable & Content Management Enhance Financial Systems"***

#### **SYNOPSIS:**

The efficiency of ERP systems can be lost if other parts of the organization that must interface with it can't. What is missing - but often not discovered until after the fact - is an end-to-end stream of paper and electronic data together with optimized workflow between departments. Read this second installment of our Briefing Series to understand where the bottlenecks lie and what can be done about them, and how components like document imaging, content and records management - working together - can make your organization a well-synchronized information powerhouse.

**THINK ABOUT THIS:** Read Part II of IDT's Briefing series to find out how your organization can achieve the *IDT Complete* picture of what's going on in your business.



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IDT Consulting, Itasca, Ill., provides mid-market companies throughout the Midwest with a single source for Enterprise Resource Planning, Customer Relationship Management and Enterprise Content Management systems that enhance business efficiency through integrated financial, customer relationship and workflow solutions.



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### **About IDT Consulting**

The companies of IDT (Integrated Document Technologies, Inc.) support small, mid-market and enterprise firms in achieving maximum efficiency by offering fully integrated ECM, ERP and CRM solutions.

Founded in 1992, IDT's initial focus was helping companies effectively apply automated enterprise content management solutions to eliminate paper and better manage every business transaction. With the inception of IDT Consulting in 2001, the company offers ERP and CRM solutions and in-depth knowledge of how financial systems work and how to streamline the accounting process. Today, IDT Consulting is a Gold Certified Microsoft Partner specializing in Dynamics GP, Dynamics CRM, and Microsoft SharePoint.

IDT's full range of integrated offerings include software applications, hardware, and systems for scanning and imaging; services for document and materials conversion, storage and electronic archiving; systems integration and support; and strategic consulting for quality assurance. Unlike any single product-line manufacturer, IDT has the knowledge, expertise and resources to deliver and service a complete solution, drawing from the full selection of available technologies.

IDT maintains a broad client base that includes government and state agencies, life sciences and health care, manufacturing and distribution companies, and financial services and insurance organizations.

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