

SMALL BUSINESS ERP

5 STEPS TO SUCCESS

Your comprehensive guide to finding an ERP to suit your small business

GUIDE HIGHLIGHTS



Deciding whether an ERP is right for your business



Tips on requirements gathering and key features



A list of SMB ERP vendors to kickstart your shortlist



INDEX

3

Decide whether your small business is ready for an ERP

5

Compile an ERP budget for your small business

8

Map out your small business ERP requirements

10

Identify ERP features that will meet key requirements

12

Create a shortlist of small business ERP vendors



DECIDE WHETHER YOUR SMALL BUSINESS IS READY FOR ERP

ERP systems are typically defined by several business tiers associated with revenue scale. Each discrete segment represents various feature sets driven by individual business value propositions.

We're not discussing selling price here - businesses should be capable of understanding their own budgetary limitations. However, system pricing can still help businesses identify feasible ERP solutions, especially in smaller companies.

Let's first consider the overall market's ERP tier structure; then we'll orient ourselves to small business as a specific business type:

TODAY'S ERP TIERS

The ERP market is largely defined by three revenue levels. These are:

- **Tier I ERP vendors:** these sell to the (large-scale) market with annual revenues exceeding \$1 billion. These companies are invariably multinationals with a presence in many different geographic regions.
- **Tier II vendors:** these provide ERP to mid-sized companies in the range of \$50 million to \$1 billion in revenue. Tier II vendors are specifically designed to deal with this market scale, while also catering to single or multiple deployment locations.
- **Tier III ERP solutions:** these target companies that typically generate revenues of \$10 million to \$50 million. These solutions are simpler to implement and support and offer correspondingly lower cost of ownership.

Watch a few of these for promising-looking vendors, then sit down with your team and compare notes. There is a chance that a video demonstration might persuade you to shortlist a system, but these shouldn't be used to make a final purchase decision.

SMALL ENTERPRISE SUITABILITY FOR ERP

While tiers I and II continue to represent the bread and butter of today's ERP market; of late, tier III has become a hotbed of innovation. In the main, this assertion can be best understood by following the cloud's emergence as a central ERP business driver.

In short, the cloud offers 'big company' information flexibilities, at a 'small company' cost. Together, this closed-loop value can create an entirely new advantage, where small companies are able to generate nearly as much revenue power as big ones, while also establishing better cash positions over time.

So to get from here to there, what kinds of small companies offer the most clear-cut ERP purchase opportunities?

WHAT SORT OF SMALL BUSINESSES SHOULD BE LOOKING AT ERP?

While the word 'best' implies a degree of subjectivity, whenever ERP systems come to the fore, some business types accommodate resources-based technology better than others. Some examples of small businesses that work well with ERP include:

High-growth SMBs

It's only possible to survive off of spreadsheets and Quickbooks for so long. Eventually, lack of more advanced financial management and process automation tools will stymie growth in revenue. Avoid this plateau in growth by implementing an ERP sooner rather than later.

High-growth manufacturers and distributors in particular will find benefit in ERP due to the large amount of data they deal with - inventory, production orders, sales, supplier orders and supply chain management are just a few of the siloes that ERP can eradicate.

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More specifically, cloud ERP may be a good fit for:

Companies that can't afford a large upfront investment

While eventually SaaS subscription payments will level out with upfront license fees (more on that below), the lack upfront payment provides an opportunity for smaller companies without large sums of capital lying about to take advantage of ERP's benefits.



COMPILE AN ERP BUDGET FOR YOUR SMALL BUSINESS

Although there are hosts of technological advantages available for those who choose to run small businesses in today's global market, there are also financial challenges.

As one might expect, small business budgets are largely managed and limited by cost, rather than gross revenue. Consequently, while ERP has now become a legitimate opportunity for many small players, cost of ownership issues can pose budget problems unless planned for properly. To take the edge off this potential threat here's a very short budget framework to help you iron out any issues you run into.

SMALL BUSINESS BUDGETS NEED TO BE TIGHT

In some ways, budget management in the small enterprise is much more challenging and complex than budget planning within a large corporation. If a company is big and strong enough a single financial mistake won't destroy its future.

"As one might expect, small business budgets are largely managed and limited by cost, rather than gross revenue"

However, when playing 'small ball' any ERP-driven budget consideration should not only require detailed cost investigations, but also liberal applications of experience and wise counsel before pulling the trigger. After all, way down in the weeds you usually only get one shot, so you'd better hit the target first time - or pay a bigger price later.

DEFINING YOUR ERP BUDGET

Assuming that you have already decided that ERP will work for you operationally, the next step is which system will be most advantageous, and how much that advantage is likely to cost.

From a budgeting perspective today's market offers two central decisions on how to pay for your ERP:

- Deciding between **on-premise ERP and cloud (SaaS) ERP**
- Deciding between **standard (proprietary) software and open source ERP**

Open source software is a great way for small businesses to save on system costs, though there are pros and cons for all of these options. We'll start by looking at the differences between cloud and on-premise solutions:

	On-premise	Cloud
Cost	Additional implementation costs common (hardware). Large upfront payment but can be cheaper in the long term	Faster, cheaper implementation, with cost spread over monthly payments. Cheaper upfront but not necessarily long-term
Data	You have total control of where your data is stored	Data is stored in a third-party data center, which you have limited access to
Updates	You have access to updates but are responsible for implementing them across your network yourself	You are on the same release as all other customers. Vendors often automate releases, so there's little effort involved on your part
Customization	More flexible to customize in general, if you have the IT resources to keep them working as your infrastructure evolves	Difficult to do without access to vendor APIs
Support/ maintenance	More expensive for extensive troubleshooting as customer service require a detailed knowledge of your infrastructure	Generally lower support costs, with maintenance charges built into monthly subscription

Now let's have a look at proprietary software and open source:

	On-premise	Cloud
Cost	Software is not free, prices for the system, support, maintenance etc are set by the vendor	Software is free - though be wary of the cost of staff hours spent coding and implementing the system
IT requirements	Variable - depending on whether cloud/on-premise	Extensive, as you need to work with source code customize and implement the software yourself
Customization	More difficult to customize than open source, but not impossible	Very flexible, if you have the in-house knowledge to do so.

FURTHER COMPONENTS OF AN ERP BUDGET

Once you've decided on a delivery method for your ERP, it becomes significantly easier to construct a workable budget. It's usually a good idea to add an extra 10% to whatever you calculate to mitigate risk.

If you chose on-premise software, you'll need to add the following costs to your budget:

- Hardware
- A large upfront license fee
- Implementation fees
- Training
- Employee overtime

In the case of **cloud ERP**, you'll still need to budget for employee overtime, training and implementation efforts (although these will be less extensive than those for on-premise ERP), though there will be no hardware costs as cloud software is delivered through the web.

Of course, if you're spinning up an **open source system** then you'll likely be implementing it yourself, which saves on cost. You will need, however, to factor in costs for external development if you're short-handed in this area internally.



MAP OUT YOUR SMALL BUSINESS ERP REQUIREMENTS

Before we get into small business requirements-setting, perhaps it might be best to consider the goals of ERP in a small enterprise environment. There are typically often three core values involved:

1. OPERATIONAL CLARITY

Small businesses have limited resources at their disposal, so it's essential to eliminate sources of inefficiency like data silos.

Rather than having disjointed departments dealing with challenges associated with the development of stove-piped information, data can be centralized, and easily accessed, shared, and migrated. This reduces the potential for human error and associated costs and increases efficiency.

2. ENHANCED DECISION-MAKING ABILITY

The ability to adapt quickly to market changes, and to make decisions without having to go through several layers of management, can provide small businesses with an advantage in an arena that all-too-often favors larger firms.

Leveraging common data, provided by a central ERP platform, can be used across sales, production, inventory management, and financial operations to inform a company's next move. Altogether these values allow small firms to make vital decisions quickly and accurately while reducing operational waste.

3. EXPANDED PRODUCTIVITY

The use of common data-sets tends to streamline overall operational processes, while also allowing staff resources to refocus on direct management and the expansion of business volume. Essentially, it gives your staff more time to do their job - and in a fast-paced, pushed-for-time small business environment that can only be a good thing.

Also, because ERP is largely regimented within its operational framework, this characteristic tends to positively alter the nature of businesses in general, leading to better efficiency throughout.

WHEN YOU NEED TO MAKE A MOVE

While there is no sure way to know when it's time to consider an ERP selection, there are typically some general characteristics that apply. These include:

- **If the company's business intelligence has become spotty**, and what 'information' exists is of dubious value, it's usually a good time to look at an ERP option.
- **If the company is challenged by growth management**, particularly in the case of a sudden expansion in sales volume, it's usually a good time to look at an ERP option.
- **If the company finds itself dealing with glaring inaccuracies** in terms of static and dynamic inventory levels, it's usually a good time to look at an ERP option.
- **If the company's sales forecasts are largely based on the WAG method**, it's usually a good time to look at an ERP option.

KEY CHARACTERISTICS OF SMALL BUSINESS ERP

In this case, there are numerous 'musts' when considering ERP in the small-business environment. Avoiding specific feature requirements (these vary wildly from business to business), major themes include:

- **Ease and speed of initiation:** this normally points to a cloud ERP as implementation is faster and upfront costs are lower. A rapid launch phase allows small companies to leverage big company advantages.
- **Cost efficiency:** to avoid blowing a hole the size of Manhattan in small business budgets, costs (including 'hidden' costs like training and support) need to be affordable, and the system should offer a relatively quick return on investment
- **Support on-demand:** regardless of the sophisticated nature of a particular company, ERP applications typically take some time to get used to. Consequently, ready support is a must. Unexpected system downtime can be a spanner in the works for small businesses, so it's important that you have help on-hand when you need it.
- **Flexible access controls:** in small businesses people end up wearing many hats. There may not be a division of labor across departments as there is in larger companies, so being able to modify access quickly is essential
- **A good UI:** if you work for a small business, you know it's 'all hands on deck'. You can't afford for your workforce to be bogged down with multiple training sessions, so software which is intuitive to use is a must.



IDENTIFY ERP FEATURES THAT WILL MEET KEY REQUIREMENTS

In the last section, we focused on strategic goals and requirements when applied in a small business environment. This section is a bit more granular, and goes into specific ‘must have’ and ‘nice to have’ features to build on this.

“While there is a large degree of hyperbole when it comes to ERP these days, when it comes down to it ERPs are still ultimately ‘resource management’ systems

While there is a large degree of hyperbole when it comes to ERP these days, when it comes down to it ERPs are still ultimately ‘resource management’ systems. This doesn’t necessarily mean ‘things’ and ‘people’, but how those resource elements interact to enhance overall small business efficiency, or in short, more money on the bottom line.

To achieve this goal, one must leverage several core feature sets, since these are the bedrocks that business is based on. These include:

STREAMLINED PROCESS APPLICATIONS

- Project management
- Production control
- Inventory control
- Logistical management
- Systems security

You could also consider integrated HR and CRM functionality if you have the budget, your company is big enough to warrant it, and you don’t already have a system in place.

INTEGRATED FINANCIAL APPLICATIONS

- GAAP accounting
- Consolidated financial management

DIRECT REPORTING

Reporting - preferably with real-time data - is a major benefit of implementing an ERP. Alongside the broad-level feature-sets outlined above, here are a few reports to look for when shopping for ERP systems:

- Sales: for example quotations list, list of sales orders
- CRM: for example contact list
- HR: for example personal FTE information, emergency contact
- Project management: for example functional timelines
- Production control: for example product line counts, finished goods tallies
- Inventory control: for example bin counts, distribution logs, shipping logs
- GAAP accounting: for example GL, AR, AP, payroll
- Consolidated financial management: for example divisional reporting
- Systems security: for example failure/recovery reports

EVERYTHING ELSE - AND WE MEAN EVERYTHING

In this area we identify various follow-on tiers that can be applied to a small-business ERP platform. Some of these elements include:

- **In/outbound business intelligence:** allows your business to 'see and respond' to the totality of its market in real-time.
- **In/outbound mobility:** binds your customers to your business by means of a host of communications mechanisms.
- **In/outbound social networking:** creates a virtually-persistent channel between customer and business.
- **Automated operational scripting:** alleviates manual processing throughout the system, and the enterprise at-large.

Each of these requirements sections apply to the same value sets ranging from the elimination of process waste to reduced cost, ultimately leading the enterprise to achieve enhanced revenues over time.



CREATE A SHORTLIST OF SMALL BUSINESS ERP VENDORS

Today's market offers all kinds of ERP values for small operators, particularly when it comes to niche segments. While these enterprises require the same kind of resources management that the big guys do, they also require some tailoring to ensure that their specific needs are met.

Here are several standout ERP providers who offer best of class capabilities depending on the market sector and size of the target company:

CGS: BLUE CHERRY

This provider offers a host of ERP values for mid-sized companies operating in the textiles design and production market. The product is suitable for midsize apparel manufacturers, harboring from 50 to 100 employees, offering on-premise and cloud-based deployment. Major functional values include:

- Product development
- Materials source management
- Integrated logistics
- Sales processing
- Dynamic workflow management
- Order-to-cash management
- Financial management
- Purchasing and receiving
- Production management
- Predictive and actual costing
- Tailored reporting
- Business intelligence

Acquired data can be displayed in charts, graphs and in summary form that can be delivered via web browser, email or via text message. Pricing is per module, plus user license fees. Email and phone support are available.

XTUPLE SOFTWARE

This open source ERP system is tailored to support small enterprises at the 20 or less employee threshold. The company offers both on-premise and cloud operation. Major functional values include:

- GAAP accounting
- Sales management
- Supplier-chain management
- Inventory management
- Production distribution

The system accepts various modes of manufacturing ranging from discrete manufacturing, process manufacturing, and engineer-to-order manufacturing to made-to-order products. xTuple offers online support to all its customers during business hours.

NETSUITE

Originally designed to be a pure accounting system, over time, and after being acquired by Oracle, the platform has grown to become a sophisticated ERP system. The product is delivered as a SaaS (Software as a Service) value, and is entirely capable of handling from 50 to 100 employees. Major functions include:

- Financial management
- GAAP accounting
- Integrated analytics
- Payment management
- Order and billing management
- Supply chain management
- Inventory management

The system is also entirely compliant with Oracle's ERP backend, including its sophisticated RDBMS framework. The platform will operate with a range of browsers including; Microsoft IE, Firefox, Safari, Opera and others. As a SaaS system data security is ensured through NetSuite's data center and built-in security controls.

BIZAUTOMATION CLOUD

This system is designed to support the needs of smaller firms in the 10 or fewer employee range. As the brand name suggests this application is a SaaS (Software as a Service) offering, and consequently harbors a low price-to-entry value. Major functions include:

- GAAP accounting
- Order management
- Inventory
- Customer relationship management (CRM)
- Sales commission
- e-commerce (including a business portal)
- Materials purchase planning
- Project management

The product is focused on small wholesale/distributors, retail sales and organizations with single-product manufacturing needs. The software is priced on a per-user, per-month basis.

Obviously, this list is not exhaustive - there are plenty more systems out there that suits small businesses and meet their needs adequately. Nevertheless, this is a solid starting point from which to expand your research.

This guide was written by Rick Carlton, ERP Focus Columnist, with contributions from
Kathryn Beeson, ERP Focus Editor

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