



The Business Case for a new ERP system: When is it time?

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An Enterprise Resource Planning (ERP) system is a big investment and one that can provide huge benefits to a company. The worries around making such an investment involve fears of growing project timelines, over-budget project costs, and consultants taking huge amounts of time from your staff away from their normal duties. On the other hand, the benefits of ERP can produce better productivity, reduced operating and administrative costs, better reporting to manage the business, and better internal control. So when do you take that step? How do you know if you need a new ERP system?

Many of the benefits of an ERP system come from the ability to integrate and standardize processes and functions into one system that were decentralized or disparate systems. This article outlines the major signs or symptoms that it might be time to consider implementing a new ERP system or consolidating into a single ERP and the associated benefits.

Symptom	Benefit of an integrated ERP
<p>Fast growth Rapid growth may provide obstacles to your ability to provide the appropriate system capability.</p>	<p>Scalable A robust ERP solution provides scalability for additional volume of operations, users, new locations or entities.</p>
<p>Inefficiency due to redundant processes and systems If your company has grown through acquisition, acquiring companies with different systems or expanded into new regions and each new entity or product line has implemented their own systems, you may have inefficiency challenges.</p> <p>Various disparate systems often mean:</p> <ul style="list-style-type: none"> Processes vary which can cause excess time and cost in monitoring and consolidating activities. Data transfers between systems are required, in turn requiring reconciliation and potentially large amounts of data manipulation. 	<p>Standardized Processes A single integrated ERP system facilitates the execution of standard processes.</p> <p>Reduced data transfer and manipulation A single integrated system reduces or eliminates data transfer, manipulation and the associated risks.</p>

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<p>Over-reliance on error-prone spreadsheets and manual processes</p> <p>Key processes are performed in spreadsheets, such as financial consolidation or fixed asset tracking and depreciation. Key management reports are produced in spreadsheets. If adequate systems are not in place, you may be spending a great deal of time manipulating data outside your system and often correcting errors.</p>	<p>Efficient and accurate automated processes</p> <p>Calculations and functions of an ERP are tested in implementation and can be relied upon going forward without the repeated review of a spreadsheet process. Time spent on spreadsheet creation and review to perform functions that are standard functionality of an ERP can be redirected to more high-impact analysis.</p>
<p>Inadequate reporting capability</p> <p>The company is lacking in its ability to forecast or plan or even report the right information timely.</p>	<p>Improved reporting</p> <p>ERP Systems support more robust planning, budgeting, and analytics to support financial analysis and control.</p>
<p>Meeting reporting deadlines is difficult</p> <p>Reporting is not available timely due to the need to gather data from multiple systems. Reconciling information is challenging due to multiple sources of data.</p> <p>When a company has multiple general ledger systems, it often means there are multiple closing processes for each set of books, transfer of data, adjustments and reconciliation. Many companies spend a great deal of timing consolidating and making adjustments in a spreadsheet.</p>	<p>Reduced time on consolidation and period-end closing</p> <p>The processes for period-end closing, consolidation, review and reporting are often a simpler and less time-consuming process in a centralized reporting system. An ERP system utilizing a consolidation and reporting engine can enable a simpler, shorter closing process. This may allow a company to either reduce headcount or re-focus accounting personnel on more strategic activities or better accounting controls such as account reconciliation.</p> <p>A single system holding all the data leads to timely reporting and no need to reconcile various data sources.</p>
<p>International requirements</p> <p>Many accounting systems are only designed for one set of accounting books and other countries generally have local statutory requirements different than the US.</p> <p>Foreign currency translation may be performed inconsistently across the company with multiple systems. Exchange rates stored in separate systems may be sourced from different places and inconsistently applied.</p> <p>Companies that have multiple general ledger systems for multi-location entities are familiar with the need to have very manually intensive intercompany processes, with difficulties reconciling at period-end.</p>	<p>Multi- entity accounting books</p> <p>A true ERP system allows you to maintain multiple sets of books for multiple entities.</p> <p>Consistent application of foreign currency translation</p> <p>A single ERP system would eliminate having various exchange rates and translations in various systems. Many systems do not handle multiple currencies. For a company with international entities, an ERP system which handled foreign currency translation is key to ensuring accurate financial statements.</p> <p>Balancing inter-company transactions</p> <p>Utilizing a single ERP system, inter-company transactions would automatically facilitate both entity's posting.</p>

Symptom	Benefit of an integrated ERP
<p>High compliance costs A company with various locations, systems, and processes may have inconsistent internal controls, difficulties in monitoring controls, and excessive compliance costs due to the lack of standardization. Highly manual processes take more time to monitor and test for compliance than automated ones.</p>	<p>Reduced compliance costs A consistent system across locations and processes would allow better standardization of processes, controls and compliance testing. Some internal controls that may be decentralized could become centralized, reducing the cost of performing and monitoring the control.</p>
<p>Repeated internal control deficiencies Highly manual processes have more potential for error and may require more controls for redundancy and level of comfort.</p> <p>Some applications have inadequate security functionality to enforce proper password controls or segregation of duties.</p> <p>Companies that have multiple systems may find it extremely tedious and difficult to manage and monitor appropriate segregation of duties.</p> <p>Physical security to servers housing key applications may be weak at regional locations.</p> <p>The ability to verify that unauthorized changes have not been made to systems can be extremely difficult or impossible within some systems without additional products.</p>	<p>Automated Process Controls Centralized integrated processing allows for more potential to automate controls for reconciliation and monitoring and fewer redundant controls.</p> <p>Security A good ERP solution can have consistent robust security that can be managed and monitored centrally across the company.</p> <p>A centralized ERP system can be maintained in one central data center making physical security easier to manage and maintain.</p> <p>Change control Many good ERP systems have a change control management system that keep an audit trail and allow reporting to verify when, where, and by whom changes to the system were made.</p>
<p>High IT costs Distributed systems with various support models are both costly and ineffective for consistent internal controls.</p>	<p>Centralized infrastructure and support A centrally-managed ERP allows for lower IT costs by maintaining one system instead of several in terms of less hardware and software, fewer support processes for user administration and helpdesk, patch management, backups, and monitoring. Other benefits may include lower user training cost and increased intercompany mobility.</p>

One or more of the above symptoms might drive your decision to investigate an ERP solution. However, a careful, experienced assessment might determine that existing systems can be modified and/or processes modified to achieve your objectives with a moderate investment. Your best course of action over the next few years may be to maintain your current system(s). If you aren't sure what the cause of your issues is or where your constraints are, then you need to start with a process and system assessment and determine this first. The above symptoms are, at the least, signs that process improvements should be made to improve efficiency and control.

6 KEY QUESTIONS IN THE ENHANCE-OR-REPLACE DECISION

A new system is never about the latest technology but rather understanding and meeting your business goals. As you try to decide whether to enhance or upgrade current system(s) or replace one or more systems, some key questions to keep in mind:

1. What are the current and future business goals you are trying to meet?
2. Do you have multiple disparate systems and processes which cause confusion, inefficiency, onerous data manipulation and increased potential for errors?
3. Are you managing by spreadsheets for major processes and finding inconsistency and spending an inordinate amount of time on reconciliation?
4. What type of growth strategy does the company have? (acquisition, new products/services, new regions or countries?)
5. What new regulatory requirements might be imposed on the company over the next few years due to either potential changes in regulations or your growth plans? For example: new accounting standards, potential IPO and related Sarbanes-Oxley and SEC requirements, new locations subject to different regulations, international operations (Foreign Corrupt Practices Act, reporting under local country statutory requirements or transition to International Financial Reporting Standards).
6. Which requirements are constrained by current systems and can the systems or processes be modified to meet those requirements? If so, at what cost/benefit?

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SC provides ERP selection services, project management, process and system design and assessment, and data conversion/quality programs. SC is not a software partner to any ERP software vendor.

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