

A **PSSI** White Paper



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## **Software That *Matters***

**The Why, How and How Much of ERP Implementation  
In the Small to Mid-Size Business**

*A Practical Guide to When, Why and How to Select a Business  
Management Software System –  
What It Is, What It Costs, And What It Will Do For You*

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## INTRODUCTION

The information contained in this white paper is distilled from the experience gained from hundreds of ERP deployments over more than twenty years. It was originally presented as a series of blog posts, before being compiled into this format. It is intended as a guide to beginning the process of selecting and deploying a cost-effective Enterprise Resource Planning system, without regard to what particular product you may finally select.

The original series, and other articles of interest on related topics, can be found at: <http://pssiusa.wordpress.com>

## PURPOSE

The deployment of an ERP system in the small to medium size business is both complex and critical. The hype and promise of the benefits of ERP are often sold with scant attention to costs. This paper is aimed at distilling key principles and motivators behind ERP deployment, along with some practical advice about the costs, benefits and benchmarks for doing so. Excerpts from several client case studies are also included for illustration.

Without doubt ERP, employed as a strategic investment, can return its costs many times over, but executives need to approach it with an open mind and realistic expectations. Our purpose herein is to provide a primer on that perspective.

## BIAS

PSSI sells and implements ERP systems as its sole line of business, having done so since 1987. Because we represent four different brands of solutions, we approach the topic not as a software publisher with a specific product to promote, but as a frontline solution provider with multiple offerings and long experience with the trials and triumphs of ERP deployment. This paper is aimed at sharing what we have learned with you. We hope you find it useful and informative, as we believe that an informed buyer makes the best partner and ensures the most successful deployment.

## WHY ERP?

*This white paper initially appeared as a series of eleven posts at the PSSI Blog. It has been edited to fit this format. The original series of blog posts on this topic can be found here: <http://wp.me/pBCDO-9H>*

*The PSSI blog itself can be found at: <http://pssiusa.wordpress.com>*

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Simply put, we do ERP. And after twenty years of doing it, we think others can learn from our experience.

ERP is Enterprise Resource Planning, a fancy moniker for the software that keeps businesses running. Broadly speaking, we're talking here about accounting, inventory control, manufacturing and shop floor control, managing throughput in the warehouse or on the shop floor, as well as other critical business areas like customer relationship management (CRM, another of those bulky, three word monikers) and web store development (or ecommerce, i.e., selling what you make or do through the channel of the Internet).

We think of it as software that *matters*.

In previous blog articles, we've touched on some of these elements. We've talked about CRM in a multi-part post here: <http://wp.me/pBCDO-8X> and about WMS (there's another one – Warehouse Management Systems) here: <http://wp.me/pBCDO-8m> and here: <http://wp.me/pBCDO-8C>.

But let's step back and look at **the bigger picture**: What is this stuff, and why is it so mission critical to any company that wants to grow, prosper or these days, even *survive*? What good comes from it? Who -- and what -- is involved? What are the costs and what are the benefits to be gained as a result of that investment?

At its core, ERP software is, above all else, a *strategic investment*. It's an investment of your firm's most precious resources -- cash and people's time -- in what is best described as a *long-term business improvement strategy* aimed at substantially, even dramatically, improving your return on that investment (your ROI) in the years following a successful deployment. ERP is front and center in business to **improving your operational flow, reducing expenses, and continuously improving your processes**. And perhaps most importantly, it's the platform for business growth.

## ASKING *WHY* ON THE ROAD TO A BETTER ANSWER

Starting with the premise that ERP is, above all, a strategic investment, the point is *to create long-term strategic business advantage* by being able to deliver your company's products or services better than your competitors.

That strategic advantage might be faster fulfillment, or orders shipped more completely, or services delivered less expensively, or perhaps a level of service or product customization competitors can't match. In virtually all cases, it is best accomplished by creating and managing business processes that are optimized to deliver the greatest possible value to a customer at the lowest cost.

### **How do you do this?**

Well, for one, you find ways of doing things cheaper, faster, better. That's where the ERP edge begins.

Utilizing computers and software as a competitive edge usually starts with eliminating human redundancy, eliminating tasks that have to be done more often than necessary, making tasks easier or more foolproof, eliminating or reducing errors, and improving and streamlining your processes through automation.

In virtually every company we see or work with, we see redundancy and waste. It's not the plan, it's just the way things developed. This is where the power of *WHY* comes into play... and how it leads to ERP.

One of the lessons we've learned over the years – and can never apply enough – is to ask clients *Why?* *Why* do you print that 500 page report every week? *Why* do you keep so much safety stock? *Why* does your staff spend so much time 'following up' on orders? *Why* do you have thousands of bills of material? And so on...

The answers almost always lead to further *Why's* as we drill down to the core, underlying issue(s) – and they are sometimes pretty far removed from the initial inquiry. More often than not, things are done the way they are because, well, we've always done them this way. It used to make sense.

So to close the circle: with today's technology, with today's newer ERP systems, with an intelligent look at your business' processes and procedures by qualified consultants, **it is possible to identify and correct or eliminate** the wasted steps, the redundant processes, the disorganized data and disconnected systems. It's now possible to streamline, tighten up and tie together much of an organization's information under one umbrella -- or at least, fewer umbrellas than ever before.

And that umbrella is called ERP.

## MOTIVATORS

Noting our earlier tenet that ERP is, above all, a strategic investment, let's take a look at what typically motivates companies to look at a *new* ERP system.

First off, let's face it: nearly everybody has *some kind* of automated system today.

It might be old. It might be entry-level, or outdated. It probably made it over the Y2K hump, and perhaps was purchased around that time. It probably has grown like a cancer over the years. A packaged solution perhaps for accounting or basic bookkeeping. Maybe a service for payroll. A home-made application, for say, tracking jobs, or work in process, or inventory control. Another program for CAD, with a large repository of drawings often unrelated to and inaccessible by anything else. And spreadsheets. Lots and lots of spreadsheets. Word documents, too.

And none of it, usually, mostly, talks to anything else.

So, **Motivation Number One** for a new ERP system for most companies is simple: information is scattered, hard to find, unrelated to its counterparts, highly unmanageable, not readily accessible to all, widely dispersed and captured at best in 'older' systems. Some of it is in a computer, and some of it is not.

**Motivation Number Two** is related to Number One. With information so scattered across different systems, or only on paper, there is a natural inclination towards redundancy – sometimes massively so. How often for instance must the same information be re-keyed in one form or another? Do you re-key quotes once they become orders? Do you create sales orders that are recreated for work orders that are recreated for travelers, and so on?

Most companies are probably too afraid to want to know the answer. If they added up all the time spent re-keying, searching, storing, retrieving, assimilating, reporting, sequencing, organizing and otherwise following up on all this data, **they would probably be stunned by the amount of waste.**

And as we all know, wasted time is wasted money.

**Motivator Number Three** is rapid or even sometimes uncontrolled growth. Ironically, it's the byproduct of success, which breeds more success -- provided your systems can keep up. Most growing companies, rather than change systems, find it easier to work with what they have, stretch its limits, even overload people. They're too busy growing, and afraid to make changes now. It's like blowing more air into an already inflated balloon. You can keep doing that – up to a point. But in the long run, it's not very effective. And eventually, your balloon bursts.

**A related motivator:** a *desire* to grow. We've often observed that companies who plan to grow... who wish to grow... simply don't have the software infrastructure to allow it.

Any or all of our three motivators – scattered information systems, redundancy and waste, and fast growth – are usually the key factors in any decision to “get serious” about upgrading to a modern-day ERP system. The goal: dramatically improved operational efficiencies... reduced expenses that yield strong ROI... improved customer contact leading to an improved customer experience... less waste... the list goes on.

## SUCCESS STORIES

If an ERP system is a “strategic investment” in one’s long-term business improvement strategy, it is helpful first to look at a few examples of the benefits that investment yields. Such success stories serve to validate the investment. We’ll reveal some here though because of the public nature of a white paper and a blog, we won’t name names. However, our examples are all culled from actual PSSI Case Studies, where we do name names, and then make them the centerpieces of our quarterly newsletters. (Case Studies are available on request from PSSI.)

The examples are cited not to hoist our own flag but simply to relate real-world success stories that demonstrate *how* ERP pays for itself – usually, many times over. It’s the only truthful way to convey actual results – and what better way than from firsthand experience?

These success stories serve to reinforce some of the principles we’ve outlined earlier: that as a strategic investment, ERP returns its costs many times over, by eliminating waste and redundancy, streamlining operations while providing more *actionable* information, and preparing the foundation for growth.

One client spoke of the number of new people she *did not* have to hire. This Chicago-based manufacturer of small electronic components uses ERP to handle all purchasing, payables, receivables and invoicing, not to mention quoting, planning and generating work orders – all utilizing pretty much just one person. She stays on top of bills of material and order flow, generating the reports she wants, when she wants them. On the shop floor, automated bar-coding creates labels for parts and bins and makes work order tracking not only foolproof, but totally accurate and simple. The right material gets issued to the right job, *every time*. Paperless invoicing completes the cycle. **The firm has eliminated hundreds of thousands of dollars of labor cost, materials and waste.** And that’s a typical outcome. Given this company’s relatively modest system costs, the ROI is probably at least ten to one, if not better.

Another example: A Midwestern manufacturer of rubber gaskets and seals shared some of their business results with us after implementing ERP software to greatly streamline distribution, warehousing, manufacturing and accounting. The firm was able to consolidate all production formerly done in two (and sometimes three) shifts into one. Sales, given greater sales *capacity*, increased by 35%. They were able to reduce staff count by 40%. These are *their numbers*. Moreover, they say they can put out more quotes with fewer reps, in half the previous time... with a 75% improvement in accuracy. They ship with 99.9% on-time fulfillment. Again, all these are the *customer’s* own numbers and words.

The common denominator: a well planned, budgeted investment in improving processes to eliminate waste, streamline procedures, remove redundancy, consolidate functions, and improve shop floor workflow and final product delivery. A plan which, the customer notes, was executed on-time and on-budget.

In other words: **aligning business strategy with effective technology solutions.**

## TWO MORE EXAMPLES

To a manufacturer, few things are more important than knowing your costs. So our third success story involves a Midwestern manufacturer and distributor of paints, who proudly noted how after implementing their ERP system they were able to capture the true costs for every single transaction associated with a production item. The result was a gross margin improvement within a little over a year of one to two percent – yielding a near-term bottom line improvement of over \$200,000 each year over prior best performance. Why? Because for the first time they *knew, tracked* and could therefore *manage and control* their production costs, and thus regulate their selling prices more profitably.

The fact that this firm's CFO could also get a snapshot within seconds of what the month's overall performance looked like, at any time, was simply icing on the cake.

ERP is a tool, as much as anything else. Smart managers use it to modulate and control production and performance. ERP allows a company to *know* its costs and associated details, so that it can simply make *better decisions*, armed as it is now with better information.

After all, the point is not better data, or more data, or even better information (information being the byproduct of data). The point is to *convert* that data and information into **more informed decisions**. **And that's what ERP is built to do**. That's why companies use ERP as a key growth strategy. They use ERP's reporting capabilities to drive better decision-making, pure and simple. Our paint manufacturer did just that, and it led to long-term gross margin improvement, thus returning their initial investment many times over.

One final example from our Case Studies merits mentioning.

This manufacturer of construction products to a variety of markets including manufactured housing, marine, roofing and housing has locations across the U.S. The discipline driven by their use of ERP has given them the flexibility to expand markets both geographically and functionally. In turn, their increased sales drove a demand for better warehousing and the ability to accurately, rapidly and easily ship more products to more customers in more places than previously possible.

Using handheld barcode scanners in the warehouse, staff was quickly and easily trained to pick orders accurately, the first time, every time. This dramatically improved accuracy of fill-rates and sped up shipping. Mistakes were caught before they happened. This resulted in fewer customer returns and complaints, even as they improved ship rates by over 25% (the customer's own numbers). Without the software, this client noted, they could never have kept up with their increase in orders. Even the auditors were impressed by their year-end inventory accuracy and improved turns, they told us.

These are just two more examples of the overriding principle: that a strategic investment in improving your automation **results in dramatically improved bottom line results** – in multiple areas, on a continuously improving basis. Real world results, from real world clients, applying the principles and technology of ERP.

## WHO BENEFITS?

Previously, we've attempted to lay out the fundamental purpose of ERP, the problems it addresses, the motivators to deploy it, and several success stories of implementations culled from our own customer base.

We've seen returns on investment of ten to one, sometimes better. We've shown how ERP is clearly a launch pad for growth. It enables success. We've illuminated how ERP eliminates waste and redundancy, and reduces the need for added staff. In short, we've talked about the challenges and the returns.

Next, a few words on the 'typical' customer. This is the "Who Benefits" part of the paper.

Let's start with a baseline. Our firm's experience over 20+ years is generally in the SMB or Small to Mid-size Business market space. Our customers typically do anywhere from a few million to a hundred million or so in annual sales. The sweet spot for ERP in the SMB space, if there is one, appears to be companies with sales starting in that \$10 to \$30 million dollar range and up, and growing.

Frankly, the math is pretty simple. If you reduce your expenses or costs or waste by a certain percent, then the bigger the company, generally, the greater the overall gain (or cost reduction) in pure dollars. A 1% gross margin improvement is \$1 million in a \$100M company, and only \$100,000 in a \$10M company.

Yet we often find that the savings are more meaningful, and often more revolutionary in the smaller firm. Plus, with costs in line due to improved processes, procedures and automation, they've set the groundwork for rapid growth, not to mention competitive advantage. They become larger companies.

Most of the companies we work with closely have a few other common characteristics: They are usually growing. They have forward thinking managers who understand that there is great value buried in the data. They are willing to admit they have redundancies and waste, and want to correct them. They believe in continuous improvement. They understand the business value of being 'lean.' They are mostly in solid businesses with – despite the recession – a solid future. And they won't spend money unless they see a clear path to an ROI that warrants doing so.

This so-called 'typical' customer in our SMB market usually has anywhere from 5 to about 75 users. 10-50 is roughly the sweet spot there.

And most of them *grew their systems over time*. As we tell people, ERP is a *process*, not an event. The Case Studies we referenced earlier took anywhere from about a year to as many as five years to fully realize the benefits of their investment. It comes slowly, just like continuous improvement is supposed to do.

OK, so that's the client profile – at least for our firm. Next up, some typical costs.

## HOW MUCH?

Previously, in order to discuss pricing, we defined our so-called typical client as a firm in the \$10 to \$100 million (revenues) range. Most, though not all, are engaged in either manufacturing, distribution or both. ERP can be for anyone. Manufacturing and distribution just happen to be our particular areas of greatest expertise. Given our baseline, let's take a look at typical costs.

Whenever we're asked '*What's it cost?*' I'm always inclined to give an answer along the lines of '*How many trees are there in a forest?*' Not to be facetious, but really, cost varies according to several factors, including the obvious (How many users? How many areas of the company do you want to tackle? How complex is your manufacturing process?) as well as the less obvious (How many of the necessary implementation steps do you want *your team* to tackle instead of *ours*? How experienced or savvy is your staff? How committed is the executive at the top?)

Let's take a stab at it anyways.

We've sold \$40,000 systems and we've sold \$400,000 systems. The difference, generally, had to do with... the number of users; the scope of the initial phases of the project; the computer and business literacy levels of the users; and the amount of planning groundwork required to reformulate or re-design business processes. One other factor: How heavily will engineering be involved, with all its cascading layers of staff, resources, projects and plans? Add to that, how many people across how many different departments require training?

The list is longer than that, but the conclusion we've come to after many years is pretty simple: **start small and discrete**. We like to start with the base software and one or two key departmental deployment objectives. These are typically the areas of greatest pain or urgency. They usually become pretty self-evident during the discovery process at most companies.

It may surprise you to learn that today, within a certain range of dollars, pricing on most ERP systems for the SMB market is remarkably close from product to product. We know this because we represent fully *four* different systems, and are familiar with many others.

For a typical starting point, say 5 users, and a commitment to deploy ERP across one or two functional areas initially (say, financials and order fulfillment as examples), the cost difference across multiple different ERP choices might be only about 25%. Typically, a 'basic' 5-user ERP system with most of the expected accounting functionality (financial reporting, receivables, payables, order entry, purchasing and inventory control) and maybe some basic 'kitting' manufacturing capability (BOMs, Orders, Routes) might run around \$30,000, give or take. That's for the software.

To that, all software publishers today add an annual maintenance plan fee. This typically runs about 16% to 20% additional. These maintenance plans are usually 'required' by the vendor for the first year. They do *not* entitle users to free support or training or other services; rather they entitle you to all software upgrades (and maintenance releases, or 'bug fixes') released by the vendor during that year. They are renewable, optionally, on an annual basis.

## MORE ON ERP COSTS (HOW MUCH, PART TWO)

We noted an entry point price of about \$30,000 for a complete financial and rather modest manufacturing (or distribution) software suite. That's for about 5 users. Figure roughly \$4,000 for each additional user, and you'll have a pretty valid estimate of software costs. Thus, at 10 users, figure about \$50,000, maybe a bit less. At 20, you're in the \$75,000+ range. Pricing diverges as user counts increase, so it's not a straight line calculation, but these will get you in the ball park. Again, that's for software modules.

As noted earlier, publishers charge anywhere from 16% to over 20% per year in annual maintenance fees for their optional software maintenance agreements. These are very profitable to the publisher, and it's their way of keeping you locked in, but also current. They're more profitable to the publisher because only a few give any kind of reasonable margin to the selling partner, a.k.a. the "reseller." They are usually mandatory during year one. They have a tougher time making these mandatory farther out in some cases, particularly if the customer has extensively modified their software. But that's a whole other topic entirely.

With this rough estimate of software costs, the other shoe now drops: services.

We're prejudiced, admittedly, but our view is that *the best software in the world is fairly useless unless it's properly, carefully and methodically deployed*. You can insert your favorite metaphor here (you wouldn't buy a car without the tires... you wouldn't buy the wine without the corkscrew, etc.) but the truth is, deployment is complex, difficult, time consuming, labor intensive, and generally not fun. (Although we did recently have a client tell us "You guys make ERP fun!" That's the first time we'd heard that one.)

Deployment costs (or "services") are a bit more difficult to estimate, as truly, no two clients or deployments are the same. Broadly speaking, a fair range of cost estimates runs from one to two times software costs. There's a lot of analysis, setup, configuration, data transfer and planning time required in *all* system deployments. These are more or less 'fixed' costs, so when they're spread over *fewer* users, their actual dollar value forces the estimate to closer to two times software; whereas when spread across *more* users, these costs represent a smaller percent of the overall deployment costs, and thus a final figure closer to one or maybe 1.5 times software costs. Again, all estimates are just that: estimates. Your mileage may vary.

And for sure, we always say this: ***We cannot quote what we do not know.*** We live and die by those words. Any experienced ERP implementer will tell you the same.

So, to wrap up: If you're looking to implement ERP – properly – for about 5 or so users, complete with financials and inventory control and some basic manufacturing or distribution functionality, you're looking at a project that will probably run about \$60,000 to \$75,000, spread over several months, again depending on any number of factors. At 10 users, you won't be double that range, but you'll probably be in the vicinity of \$100,000, give or take. Less complex deployments will cost less; more complexity, and other functionality not listed here (which you can often add later), will increase costs.

At the least, you can build your planning budgets around these figures, and in turn, use those figures to determine just how big a bite of the apple you're willing to take.

Which brings us around to one of our long-time, key implementation tenets: *Start small and discrete*. We'll have more to say about that next.

## START SMALL AND DISCRETE

Having deployed a couple hundred accounting or ERP systems over twenty years, probably our most important recommendation on the matter can largely be distilled down to the one simple principle summarized in our headline above.

Prior to ERP purchase and deployment, the wisest course is always to engage in a discovery process (or needs analysis, or business process analysis – they go by many names). During the discovery process, pain points are identified. How those pains affect *others* in the company should also be identified. Bottlenecks and redundancies are uncovered. A basic workflow is flowcharted that boils down to: How are things done now... and how *should* they be done in the future? This by the way is the basic concept of a process known as Value Stream Mapping, in plain English.

As you move through the discovery process, you'll find various business process/problem areas that need to be addressed, improved or corrected. Your job is to pick out just the one or two areas, departments or pains that warrant the most immediate attention. These are the areas usually best suited to become the first phase of your ERP deployment – after all, they should be among the most urgent. Solve those, and you will see some immediate ROI, a good benchmark for success and for continuation of the deployment.

The task at hand is to identify the obstacles and their potential solutions, and map out a project plan that addresses and resolves them. The tasks should be confined to the one or two project areas that will initially be addressed. For example, it may be that the company needs to deploy ERP across many functional areas including some or all of... the front office, billing/purchasing, payroll, order flow, customer service, warranty and returns, production, shipping, warehouse management, and so on. Nonetheless, the prudent course is to pick just a couple – say financials and order processing for example – and simply start there.

### **This 'small and discrete' project approach will yield several benefits:**

**First**, it gives project stakeholders on all sides a tangible, realizable goal to work toward. Everybody knows the goal, though not everyone is affected (only the departments in question) and frankly, there's less to go wrong. The likelihood of bringing the company 'to its knees' due to a dramatic changeover is minimized or eliminated. Besides, with a well-defined *project plan*, transition damage should be largely nullified.

**Second**, it gives you a chance to evaluate your provider. Before committing to the whole project, you're committed to only part of the project. Also, it's easier to pull the emergency cord on a small, phased project than on a large and sprawling one.

**Third**, it mitigates, or at least spreads, project costs. While you're usually going to buy substantially all the software modules up front, you are only committing to a manageable slice of the services at the outset. Moreover, services are typically paid for as you go, so you're spreading your costs over the timeline you define.

**Fourth**, it gives you the opportunity to celebrate small victories, while laying the foundation for rollout to other departments in a positive light. When you change business management systems, *everyone* is watching, even the people not immediately affected. Early successes make subsequent departmental adoptions that much easier. Next we'll look next at benchmarking steps, that is, how to know when you're making progress. After all, you cannot improve what you do not measure.

## KEY INDICATORS: TAKING ACTION

Our own experience with deploying ERP solutions dovetails nicely with a web presentation given by Alexandre Attal, an ERP executive from one of Sage Software's many ERP divisions. The topic was "How ERP Can Translate Information into Business Success" and Attal was addressing the area of performance indicators and business intelligence.

In other words, in gaining all this information from a modern business management system, what's important here, what do I do with it, and how do I manage this data? Some key takeaways...

**You have four key questions to ask yourself:**

1. Do you have the right data to make the best decisions?
2. How confident are you in the accuracy of data?
3. Do different departments have conflicting data?
4. How up to date is your information?

Each company has to work through these questions as they deploy, until executives feel confident that the answers are, for the most part: Yes; Very; No; and Current.

In the last analysis, we are looking for the **Key Performance Indicators** that will get you springing into action.

We start with: What are we measuring? This is the DEFINITION phase. Here it is important not to get bogged down in details. Don't use metrics made to make you look good – the goal is *improvement*. Take a customer-centric point of view. What's important to *them*? Track that. And finally, take a look at *new* ways to measure.

Next: What data should we use? This is the COLLECTION phase. The data should be in a centralized repository. The information you track and analyze – and upon which you will base your final judgments about where to act – should be based on information derived from data entry that is *easy to enter* in order to ensure the most reliable results.

Then: What are we looking at? This is the EVALUATION phase. Don't get bogged down arguing results. Analysis requires understanding of the definition of the various Key Performance Indicators – make them clearly defined and easy to use, so you can focus on action.

And finally: What do we do now? This is the ACTION phase. Remember, the goal is *action* – information alone will not improve performance. This requires continuous measuring.

## WHAT YOUR BUSINESS MANAGEMENT SYSTEM *SHOULD* PROVIDE

We just looked at the criteria for Key Performance Indicators – the benchmarks a company uses to monitor how well they are turning information into *action*. Continuing here, we can look again to comments of Alexandre Attal, of Sage Software and blend these with the lessons we have learned over many years and clients. These KPIs for turning information into action are never the same across any two companies, though many companies do have similar needs.

It all boils down to what your technology *should* provide to *your company*.

At the least **technology must provide three characteristics to improve your performance**. Your technology (i.e., your ERP system) should...

1. Reduce time and costs
2. Interoperate across locations, functions or departments
3. Improve the customer experience

A good, *integrated* ERP solution will therefore provide all of the following:

- Access to information, from executives all the way out to the field
- Dashboards
- Flexible reporting
- User-level security of information
- Ease of use

An effective ERP solution is *integrated* so as to provide:

- A common data repository of key information from key functions
- Accuracy and timeliness of data
- A less cumbersome method by which to manage & support operations
- The ability to *take action*, through features like event triggers and alerts early in the monitoring of a process, benchmark or action item
- Customizable portals for every level of employee -- whether this is a 'dashboard' or a 'role-tailored client' in which each key user has his or her own unique view of *what matters to me* when they log onto their system each morning

And finally, the result of this integrated ERP approach reveals the specific items upon which the company can take action, such as this short list of examples...

- Identifying customers who have cut back on orders to offer incentives to buy...
- Monitoring inventory levels for critical products to react promptly if levels fall too low...
- Viewing the financial health of the business *before* the books are closed ...
- Planning the manufacturing cycle with access to orders, ship dates, lead times and finished goods (i.e., *true* MRP)...
- Proactively informing customers about order status, automatically (no more chasing down orders every time a customer calls!)...
- Automated, timely alerts on customer credit-limit issues...
- Knowing which jobs, projects and/or customers are profitable – and which are not.

So let's wrap up this series on the fundamentals of ERP deployment.

## KEY CONCLUSIONS ABOUT ERP

Our purpose has been to set down in writing the fundamentals for **how you know when you need an ERP system** (or a *new* system)... its strategic importance... the key motivators that indicate the need for ERP... a few success stories on ERP's benefits culled from actual client experiences (often in their own words)... what it costs for software and services to get started... how to get started... key performance indicators... the importance of turning information into *action*... and what your business management system *should* provide.

We've covered a lot of ground. While covering the broad spectrum of ERP in the small to mid-size business requires dealing in some generalities, we've tried to be specific as possible about why to do it and what a typical project might cost -- of course, there is no 'typical' project, but our guidelines should certainly give you a few key objectives and a manageable budget from which to work. A few key takeaways:

- Remember, ERP is a *strategic investment* in your company's long term health, even survival. Thus, it is a *long-term business improvement strategy*. It is essential to sound growth.
- You'll know you need ERP if: You have information scattered across many independent 'silos'... You frequently key and re-key data... You rely on spreadsheets to run your business... Different parts of your business do not have equal, common access to others... Information is hard to find, organize or retrieve... You don't know what it costs to complete a project or build a product... You have no common database or history of projects, products, customers. In short, if you don't have all your information under the fewest possible umbrellas (systems), then you need ERP. **How else will you be able to discover, report, and turn information into actions that lead to significant business improvement and growth?**
- Done right, ERP *pays for itself* – many times over. **ERP will make you money.**
- Start small. Segregate one or two key functional areas for early-stage implementation. Work from a project plan. Review and assess regularly. Build, a step at a time. Remember, like continuous improvement (which ERP really is), it's a *process* not an event.
- Recognize the costs. Each project is unique, but a business in the \$10 to \$30 million dollar (revenues) range can get all the software it needs and a good foundation in services for around \$100,000, and often less. Again, user counts and complexity greatly affect the final figure. But it's a good starting point for a strong foundation that you can build upon for years to come. You can get started for less than that, but have realistic expectations.
- Your mother was right – if it sounds too good to be true, it is. Trying to go it alone or 'do it on the cheap' yields failure stories, not success stories. Do your homework. As W. Edwards Deming said: "It is management's job to know." *That's* how companies get to ROI.

## Software That *Matters* – A PSSI White Paper

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Comments, opinions and inquiries are welcome, and may be directed to the firm's offices as listed below.

Brian R. Sittley  
President  
June, 2010



### About PSSI

For over two decades, the team at **Productivity Strategies & Solutions, Inc.** has been helping companies across the nation improve operations and profits by aligning their I.T. strategies with their business goals.

Located in the heart of the Midwest, PSSI specializes in manufacturing and distribution solutions aimed at companies that want to grow.

We do this by providing several distinct, world-renown Enterprise Resource Planning systems, and then using our highly experienced and credentialed tech teams to implement solutions that save our clients money, enhance their customers' experiences and improve their bottom lines.

Since 1987, we've helped hundreds of companies manage better through automation — as documented by our dozens of client Case Studies.

To learn more about how PSSI can save your firm money, improve operations, bolster customer service and grow your business, contact us directly at any of the numbers listed. *We're here to help!*

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