



Making Enterprise Business Systems Pay Dividends

CAN YOUR SMALL BUSINESS AFFORD ERP?

Can you afford to operate without it?

April 2011



Before integrated ERP

Can you describe the environment that prompted you to select a new ERP solution?

“Bedlam. We knew money was walking out the door and we had no way of controlling it.”

Jamie McCann, Managing Director, Advanced Ventilation Ltd

“The biggest problem we had – we were building other processes and programs to pick up what we couldn’t do within our current application. It was costing us more than maintaining our existing solution.”

Richard Barron, VP and COO, Barron’s Wholesale Tire

“Our ‘blue screen’ character based system couldn’t handle the growing velocity of transactions that accompanied the fast growth of our early years.”

Mike Cornell, EVP, Bamboo Pipeline

Small companies often face a dilemma in deciding how to invest for the greatest return. In pure startup mode, businesses must invest in an operational foundation that will directly build the business. “Management by walking around” is common. Reporting is ad hoc, supported by manual processes and spreadsheets. Decision-making is driven more by gut feel than data and hard facts. These methods may be effective in early phases of the business, but once past that crucial startup phase, neglecting to invest in appropriate enterprise business systems can significantly hinder continued growth and profitability. Many stumble along with some combination of spreadsheets and disparate applications thinking an integrated Enterprise Resource Planning (ERP) solution is beyond their reach. In reality though, rather than assuming they can’t afford it, small and growing businesses should instead be asking, “Can we afford not to invest in ERP?”

SOUND FAMILIAR?

- **You’re not in control:** Processes are manual; data is scattered in file cabinets, offline spreadsheets and across desktops. That data is transferred between desks four or five or even six or eight times, adding little value and introducing the risk of errors.
- **You’ve no idea how and where to expand:** Your business is growing. You want to continue to add new geographies and new market segments. But you have no visibility as to where you made your best profit. Was it in healthcare in the northeast? Was it in commercial business on the west coast? Was it in government contracts?
- **You can’t meet customer demand:** Your inventory levels are rising, yet you still can’t seem to meet customer requested ship dates. How do you better forecast demand, lean out your inventory, and produce product just-in-time?
- **Cash is tight:** Whether you need to finance your supply chain costs or invest in growth, credit is still tight. You are handicapped in maintaining a close eye on cash and liquidity.
- **You have no IT staff:** The closest you have to an Information Technology (IT) staff is that bright kid you hired to manage your internal network, your laptops and phones. Technology is leaving you behind but you’re growing and would rather invest in revenue-generating activities, not overhead.

DOWNSIDE OF NO ERP

If any of the scenarios above resonated, the downside of not having ERP is all too obvious. Think about the amount of time you and your subordinates spend each day searching for data that could and should be readily available and literally at your fingertips. Without full and immediate access you run the risk of delaying decisions or, perhaps worse, making decisions based on incomplete or incorrect data. Spreadsheets, the universal management tool, provide a familiar and convenient means of analyzing and manipulating data, but offer no means

of creating a detailed and accurate audit trail. Relying exclusively on paper or email trails to provide an auditable system of record is both time consuming and dangerous.

Difficulty in Managing Margins and Profitability

If you are a hard goods product-based business, determining real margin analysis is difficult, if not impossible. Inventory accuracy and accurate lead time projections are critical but difficult to achieve. If your business is service or project-based, not being able to provide an accurate estimate of costs quickly may prevent you from presenting timely estimates and quotes that insure you can compete on price, yet only accept profitable business.

“If you are in the distribution business in the next 5 years, if you can’t plug directly into an ecosystem, you might as well close up shop.”

Richard Barron, VP and
COO, Barron’s
Wholesale Tire

The Need for Interoperability

Desktop-based or legacy applications may seem viable alternatives, particularly if they are ingrained into your current business processes. Most likely they were implemented back when the performance of your business was easily measured based on price, quality and on-time delivery. But today a fourth metric of performance has become the norm and that fourth metric is interoperability within your business network. As a small company, it is likely you are doing business with companies much larger than you, and more demanding.

Managing Complexity

It is also highly likely, even as a small company you are faced with complexity introduced through international trade and must navigate a tangled web of international requirements and regulations. Legacy applications simply do not provide the same level of international features, or integration and interoperability as an integrated ERP suite.

And as you begin to expand into international markets, you are faced with having to support multiple financial reporting standards, particularly if you want banks to lend you money. Although credit is not as impossible to acquire as it was during the credit crisis, it is still tight, making the need to manage cash flow all that much more critical: collecting as early as possible, paying at the most optimal time, and investing any leftover cash in something that yields the highest possible return with an acceptable level of risk. Forecasting cash available at any given time, however, remains difficult.

Tougher to Achieve Competitive Advantage

So for many small companies today, table stakes have increased. But beyond those table stakes, the global economy is making it tougher and tougher to maintain a competitive advantage. Outperforming a growing field of competitors requires a performance-based culture, supported by strong processes, audit trails and reliable data that is immediately accessible. Neither spreadsheets and manual processes nor non-integrated legacy applications can compete with the added value an integrated ERP solution can bring to the table.

WHAT IS HOLDING YOU BACK?

“Because our ERP platform was configurable and adaptable, we were able to very quickly add a whole new line of business. If we had needed to buy new technology, we probably would not have been able to do it. Nobody was lending money at the time.”

Mike Cornell, EVP,
Bamboo Pipeline

“With our current solution, we have much more functional capability at a licensing cost that is less than our previous system. We expect a return on investment in two years.”

Richard Barron, VP and
COO, Barron's
Wholesale Tire

ERP often gets a bad rap. Many industry observers focus on failed and expensive implementations that never seem to end, thereby tending to scare small companies away. The goal of ERP is often cost savings, but you initially need to spend money (and time and effort) in order to save money. Focusing exclusively on the cost of ERP, even the Total Cost of Ownership (TCO), will not overcome the initial reluctance to invest. Instead, any company (large or small) investing in ERP needs to cost justify the expenditure by estimating the return on that investment, either in terms of dollars or time to recoup the initial investment, or both. These savings can be as diverse as the companies themselves.

Often the timing of the investment can be critical. Undoubtedly, many small companies were reluctant to take on this type of project and fund this level of investment during the economic downturn. With revenues down or stagnated, they could potentially wait until better times were upon them. But now, as companies begin once again to develop growth strategies, further delay involves further risk. Waiting until you can't operate effectively without it can spell disaster.

WHY IS NOW THE TIME?

There has never been a better time to consider upgrading your technology. Whether your goal is to support anticipated growth or simply to work more efficiently and productively, several market factors converge to signal now is the time.

Price and Accessibility

First of all, prices have come down, making ERP more affordable than it has ever been. Not only has the price of entry come down, but the process of evaluating alternatives no longer needs to be as disruptive as it has been in years past. Online materials, testimonials and demos and even trial software make it much easier to perform some preliminary qualification through your own research before you ever make contact with a software solution provider.

More Innovation and Functionality

But don't make the mistake of thinking you already know all there is to know about an ERP product based on web site tours and old or presumed knowledge. In the past several years many of the top ERP solutions have made enormous strides in terms of underlying technology and that technological infrastructure brings better ease of use, faster innovation and more features and functions. The “horizontal” core functionality of traditional ERP solutions has become more of a commodity. “Horizontal” implies features and functions any business requires. But you also may need industry specific “vertical” functionality which means all ERP solutions are not “one size fits all” applications.

When evaluating options look carefully to see how that added functionality is delivered. Unless you are looking at a very narrow, niche solution, it is highly likely to serve multiple industries. Look not only at features, but also determine how your specific needs are met and whether this introduces an added level of complexity to the solution. This need not be the case. Many solutions today can be pre-configured with implementation templates and best practices. Look for

role-based interfaces and configurable dashboards and navigation trees that can be tailored to individuals.

[When the housing market went bust]
“At that point the role of ERP changed.”

Mike Cornell, EVP,
Bamboo Pipeline

More Configurability, Less Customization

Even horizontal solutions today come with more tailor-ability and configurability. Solutions that may have required heavy customization to meet your needs just a few years ago have undergone major transformations that will help you transform your own business. In the past you may have had to choose between **adapting your business processes** to match the functionality of the software, and **adapting the software** to conform to your current practices. Today user interfaces can be tailored to roles and individual preferences and business rules can be established to customize work flows and processes without ever having to muck around in the underlying software code.

This is an important characteristic, even if you do not require any specific customization today. In a world where nothing is constant but change, **plan on your business needs changing over time.**

Case Study – Bamboo Pipeline

This was the case for Bamboo Pipeline, one of the largest suppliers of plants to landscape professionals in the western United States, delivering over 10,000 varieties of plants and trees along with a full range of other landscape materials directly to job sites, often within 24 hours.

The business was co-founded by Matthew Fay and Mike Cornell in 2000. From the very beginning the company had an IT infrastructure and an ERP solution borrowed from another business owned by one of the founders, but it was what Mike Cornell, Executive Vice President described as a “blue screen” character based system that couldn’t handle the growing velocity of transactions that accompanied the fast growth of the early years of the company. Bamboo Pipeline’s revenues had doubled on average every two years, making it one of the fastest growing suppliers of landscape materials in the USA. Annual revenues increased from \$5.7 million in 2004 to \$11 million in 2006. Revenues were projected to be in excess of \$15 million projected for 2007 when the company, poised for national expansion, decided to replace its legacy ERP.

Mike Cornell and his team selected SAP Business One to support this explosive growth saying, “Modern ERP systems for small companies provide a non-trivial step up in providing efficiencies. There are explicit and implicit economies which free you up for growth and help you absorb change. The economic argument for it initially was to anticipate growth and also to anticipate what we couldn’t anticipate. “

While Bamboo Pipeline realized 47% compounded annual growth up until 2008, nobody anticipated the effects of the housing bust that accompanied the financial crisis that occurred late that year.

“At that point the role of ERP changed. Instead of fueling growth it instead became a shock absorber. Anyone in business long enough knows that growth and decline in revenue are relatively predictable through sound business management. But what you can’t predict can produce a very rapid discontinuity in your business – the housing decline, shortage of commodities, tsunamis, hurricanes, a spike in prices.

In the absence of a system that allows you to see changes in the business and respond with state of the art precision, it’s like playing the game with one hand tied behind your back.

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Case Study – Bamboo Pipeline (continued)

“We were in the midst of trying to manage change and a decline in revenue. However, because our technology platform was configurable and adaptable, we were able to very quickly add a whole new line of business. While in the past we had simply sold to landscapers, our new Plants Express business (www.plantsexpress.com) allows us to sell direct to consumers through a partnership with Home Depot. We started with an eight store pilot and now we are in 30 stores. **This went from 0% to 30% of our business and we launched it with \$0 investment in technology and one new employee.** If we had needed to buy new technology we probably would not have been able to do it. Nobody was lending money. Having it in place allowed us to launch this new side of the business. It removed labor capacity as an obstacle and provided efficiency for bottom line survival.”

As a result, Bamboo Pipeline preserved revenues throughout the downturn in the economy but improved margins each year. “Our technology driven business model, enabled by our ERP solution, was a large contributing factor. It is why we are still in the game. If you find yourself coming out of the downturn but are still gun shy, or perhaps thinking about growth and wondering if the investment will pencil, a well-executed ERP system provides a shock absorber for macro-economic issues out of your control. We are now back in growth mode and just hired seven new employees.”

“An intuitive user interface is more than a beauty contest. We used to grill prospective employees on their prior experience with systems because we knew without it they would be lost. Today it’s not even an issue.”

Mike Cornell, EVP,
Bamboo Pipeline

Ease of Use

Another reason the time is right is improvement in ease of use, particularly in those ERP solutions designed with the small company in mind. In some cases the complexity inherent in applications designed for large multi-national companies has been removed. In other cases it has been masked, effectively shielding the small company from dealing with many of the decisions and features that are the exclusive domain of large enterprise. And in other cases, complexity was never built in.

The added ease of use can often be attributed to more intuitive interfaces. Many have the same familiar Microsoft Windows look and feel that we are all accustomed to today and are far more easily navigated than the hierarchical menu structure of years gone by. As a result, less training will be required in terms of use and navigation. But don’t neglect the evaluation of business processes. And don’t neglect process standardization and process improvement. ERP can be the vehicle by which you both standardize and improve. This is where training is still required, regardless of how easy software is to navigate.

Deployment Options

Worried about having to build an IT staff? Maybe you don’t need to. Today there are multiple options for deployment, as well as options for the ongoing care and feeding of an ERP solution. With choices comes the potential for confusion. It is important to understand these various options.

Terms such as software as a service (SaaS), on-demand, hosted, and cloud computing are often used interchangeably, and yet each has its own implications and some of these approaches can be co-mingled.

Improvements as a result of implementing ERP:

The following benefits may be directly or indirectly attributed to ERP implementation. Some are more easily quantified, but all can generate value:

- √ reduction in operating cost
- √ reduction in administrative cost
- √ reduction in inventory cost
- √ reduction or redeployment of headcount
- √ growth enabled without addition of headcount
- √ reduction in waste
- √ better utilization of resources
- √ increased revenue
- √ increased profit margins
- √ better responsiveness to customers
- √ increased value delivered to customers
- √ increased production and productivity
- √ improved visibility and reduced risk of decisions

Software is typically not bought and sold; instead it is licensed for use. It may be licensed to be used by a company, on a particular computer or by other criteria such as number of users. When installed at the company's site, it is generally referred to as "on-premise." In this case an internal IT department might be responsible for supporting and maintaining the solution. However, even with on-premise environments, basic functions such as backup, security, operating system and even business application upgrades can be outsourced.

In a hosted environment, applications are licensed but are hosted by a third-party. This may be in a separate instance on a separate piece of hardware (dedicated to your company), or in a separate virtual instance (also dedicated to your company) where the application is housed on hardware shared by multiple companies. In this case little or no IT support is required at your own site.

In a SaaS or on-demand model the software itself is neither licensed nor owned by the end user company. The software is delivered as a service and is paid for through a subscription for the service provided. Generally speaking few or no technical resources are required at your own site. Cloud terminology is often intermingled with SaaS, but reference to the cloud simply refers to the operating environment and not how the software is bought or paid for.

To the non-technical ERP users the most important aspect is that they are able to connect to the application and its data from any computer with a browser. If in fact this is possible, often times the end user does not know, care or need to know which of these deployment models are actually being used to deliver the application.

A web-enabled user interface is now counted amongst the "basics" of ERP. It is the most versatile, eliminates the need to install and support software on laptops and other personal computers and allows a small company choice in how the software is deployed and paid for.

REAP THE REWARDS

In cost-justifying the investment in ERP it is important to recognize all the potential business benefits. Some of these benefits can be directly measured in cost and time savings (and often time is money). Some may be directly attributed to the implementation of ERP and some may be indirectly linked. While some of the business benefits listed in the sidebar to the left, such as increased revenue and increased value delivered to customers, are more indirectly related, inventory costs and production throughput can be directly tied back to business processes that are streamlined and improved by ERP. Reductions in administration and operating costs can also be the direct result of improved efficiencies and productivity, but are not as universally and specifically measured and therefore easily missed.

COST SAVINGS

Cost savings are often the number one goal of an ERP implementation, particularly for manufacturers, partly because the cost and visibility of inventory

“In the past we may have had doubts about launching new products, but now we have a solid foundation and the confidence to launch both new products and new companies.”

Jamie McCann,
Managing Director,
Advanced Ventilation
Ltd.

reductions can be so visible. But any type of company can reduce indirect and administrative cost for tasks as common as processing customer invoices, matching vendor invoices and making payments on a day-to-day basis, as well as reconciliation, reporting and compliance and month end close. There is a cost associated with each of those manual tasks, whether or not it is adequately measured.

CONTROL AND EFFICIENCY

Just as importantly, ERP allows a measure of efficiency and control over your business that is not possible to achieve otherwise. Without ERP, often business is managed through spreadsheets, manual processes and paper, possibly augmented with disparate business applications such as stand-alone accounting software, often based on older closed architectures that limit interoperability. The number of times pieces of paper pass from desk to desk and hand to hand is a measure of inefficiency that is hard to measure but impossible to ignore. Elimination of paper and automation of those processes are exactly what ERP is intended to do.

Case Study – Advanced Ventilation, Ltd

Take for example the case of Advanced Ventilation Ltd, a family owned business providing ventilation installation and services. It began its implementation of SAP Business One in 2006. It was a time of growth and the solution allowed the company to expand without taking on a multitude of people to absorb the added work.

According to Jamie McCann, Managing Director, “Perhaps where we have saved the most has been in the printing of stationary [or not] by communicating electronically. We have essentially gone paperless. The engineers receive notice of jobs on their mobile devices. We save on paperwork and the time saved also scales. The solution also allows us to speed up our invoice process. We know in seconds when a milestone or project has been completed. So we have also improved our cash flow.

“The solution also helped facilitate expansion and allowed us to take on new projects. It also afforded us with a way of differentiating ourselves in a service business which requires us to measure the performance of our employees and comprehensively track job progress and customer satisfaction. “

The solution also supported a launch of a completely new business. U-CLOCK is a spin-off company which not only provides services but also manufactures a product, which was entirely new for Advanced Ventilation. The manufactured product is a small device which is used in conjunction with mobile phones to manage time and attendance as well as project updates (including material requests), report health and safety issues and accidents and provide an audit trail of all of the above. The company operates U-CLOCK in an entirely separate instance of its ERP. Its experience with its initial implementation made the deployment in the new company not only a no-brainer, but also a smooth implementation.

VISIBILITY

The net result for Advanced Ventilation, Ltd was not only improved efficiency and productivity, but also a measure of visibility that is equally difficult to achieve from paper, spreadsheets and manual processes. By having all involved

operating from a single source of data that is available in real time, you reduce the risk of errors and omissions.

COLLABORATION AND CONNECTIVITY

But internal efficiencies are just the beginning in terms of business benefits that await companies embarking on ERP implementation today. Remember that fourth metric that is increasing important today – interoperability?

Case Study – Barron’s Wholesale Tire

Collaboration and connectivity within a business network was a specific challenge for Barron’s Wholesale Tire, Inc., one of the largest wholesale tire distributors serving the southeast United States. Founded in 1989, it now has nine distribution points, 24-hour online ordering, and over 150 employees and offers an assortment of brands of tires ranging in applications from passenger to medium truck and beyond. For years it had run what might be viewed as a legacy application running on an IBM iSeries (AS/400). The all-in-one nature of the iSeries had always been appealing to Barron’s but the batch orientation and limitation in functionality of its existing application was beginning to hold the company back.

Richard Barron, Vice President and Chief Operating Officer explained, “Towards the end of 2008 and early 2009, demands from our business partner network started coming at us pretty fast. Up until then 60% to 75% of our suppliers were completely domestic, but then that percentage started to shift. Many began to do business with and from overseas. Some were also upgrading their own internal systems and were demanding that we plug in to them in order for the supplier to build better to real demand. Vendors also wanted us to manage their inventory at our site – not really consignment; it was owned by our suppliers. We were really struggling with how to do it. Here we had some tires at our site that we could use as inventory if we could just figure out how to separate it and trigger the appropriate back end response. We just couldn’t make our old system do it.

“We continued to pay the maintenance fees and started to question what we were getting out of it. We were developing and maintaining processes and programs that worked outside of the system and we wound up spending as much, if not more on those as we were spending on our legacy application. And so we decided to evaluate alternatives. When we started the project back in 2008 we honestly tried to avoid the expense of switching, but we also had to look five to ten years out and we were nervous. We determined it would have cost us four to five times as much to stay where we were. “

Ultimately Barron’s wound up replacing its legacy application with SAP Business One. It deals directly with eight major suppliers that happen to be running three different ERP applications. All eight of these suppliers are able to directly see Barron’s demand today.

While this interoperability is critical to its business today, it is the direct cost savings that are generating the Return on Investment (ROI). Richard Barron anticipated a return within two years and he is a bit behind plan, but is already 45% to 50% of the way there and has confidence in achieving the expected ROI.

The largest quantifiable savings have been a reduction in spend on its legacy maintenance agreement. In addition, Barron’s had had to overcome the shortfalls of the old system and that typically meant paying third party programmers to fill those gaps. In replacing its solution, it was able to eliminate about 35% of those add-ons because it now had functionality built in. Other extensions, such as a third party demand

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Case Study – Barron’s Wholesale Tire (continued)

planning system, were plugged right in to the new system.

Beyond these IT-related savings were operational cost reductions. “We saved a ton on pre-printed documents. Today we simply create documents with a laser printer. Given we conduct about 1200 to 1500 transactions a day, this represented phenomenal savings.”

A third area of savings was in web integration. About 60% to 70% of these transactions come in online through e-commerce. “We were paying a pretty hefty penny on integration efforts. We saved a fortune because now we can do it ourselves, whereas before we needed to pay DB2 programmers, which were expensive. Now savvy business users can do a lot all on their own with plug in pieces. For the little remaining work we can get bright young SQL programmers right out of school, which are far less expensive.”

Another significant advantage was in moving from a batch-based system to real time. “We now take an order online and it is synchronized every three minutes. This is a big advantage because we never have to shut down, whereas before we would be down several hours every day for backups. That wasn’t a big deal five years ago, but it is today. We deal with 11,000 customers, ranging from large retailers down to ‘mom and pop’ shops. About 35% to 40% of our orders come in after 5:00 PM. And we buy from seven or eight countries. So now when we are doing backups, our trading partners are not impacted and when we come back online everything is automatically synchronized. “

SUMMARY AND RECOMMENDATIONS

If you are a small business operating without a technology-enabled modern ERP solution, ask yourself the following questions:

- Are you focused entirely on running your business? Or are you focusing more on pulling together inconsistent and incomplete information?
- Do the various departments in your organization collaborate effectively with data driven decision or do they spend more time exchanging reports or waiting for data?
- Are you able to support the level of interoperability your business networks are demanding?
- Are you able to close your month in three to four days? Can you easily and effectively produce all financial and compliance related reporting?
- Do you have the technology platform that will support change that you can and cannot anticipate today?

If you answered, “no” to any of the questions above, then instead of asking if you can afford ERP, the better question to ask is, “Can you afford to operate without it?” The cost of fully integrated ERP solutions have come down, while at the same time both ease of use as well as feature functionality have improved significantly. A well-executed ERP implementation can enable change and provide on-going savings that can help you sustain and grow your business. Not only will you be operating at a competitive disadvantage but you can severely handicap growth and profitability.

“If you find yourself coming out of the [economic] downturn but are still gun shy, or perhaps thinking about growth and wondering if the investment will pencil, a well-executed ERP system provides a shock absorber for macro-economic issues out of your control.”

Mike Cornell, EVP,
Bamboo Pipeline

About the author: Cindy Jutras is a widely recognized expert in analyzing the impact of enterprise applications on business performance. Utilizing over 35 years of corporate experience and specific expertise in manufacturing, supply chain, customer service and business performance management, Cindy has spent the past 5 years benchmarking the performance of software solutions in the context of the business benefits of technology. In 2011 Cindy founded Mint Jutras LLC (www.mintjutras.com), specializing in analyzing and communicating the business value enterprise applications bring to the enterprise.