

ERP Explained in Five Questions

By Rosy Lee

All large businesses use enterprise resource planning software (ERP), as do many smaller ones. But unlike basic small business software, ERP is complex and often confusing for businesses that are approaching it for the first time.

With that in mind, here are the basics of ERP answered in five questions.

1. What is ERP?

ERP helps manage, integrate, and organize all data and business processes, from ordering, production, finance, procurement, human resources, and distribution to the supply chain, depending on business needs and requirements. When properly integrated, the software analyzes, standardizes, and streamlines data as a unified platform.

Traditional ERP typically represents a large investment due to the cost of software, implementation, and computer systems. It can also take a long time to deploy, as it requires change management and some customization for specific business sector needs. This profile is a better fit for larger enterprises with high-volume, complex businesses.

Cloud ERP enables SMEs to use ERP more affordably, as the solution is hosted on an external service provider's secure infrastructure. Businesses don't need to invest in hardware, and have browser-based access to data and functionality—great for the contemporary hybrid work environment.

Cloud ERP can be deployed with either a pay-per-use or subscription model—which makes it an operating expense (OPEX), as opposed to the capital expense (CAPEX) required for traditional ERP. Because it's cloud based, this type of ERP delivers predictable security, reliability, availability, and expense management to help minimize risk.

Cloud deployments are simpler to use without sacrificing core functionality, and they can be rolled out more rapidly than traditional solutions. They deliver the same globally accessible, full strength ERP solutions as their on-premise counterparts in most cases. Thanks to simpler, rapid deployment and less need for customization, a cloud-based ERP project may be more likely to succeed than a typical large ERP project.

2. Who Should Use ERP?

Almost every organization that manages people, processes, products, or services—along with sales and accounting for those products and services—can benefit from cloud-based ERP. ERP is an integrated software platform that handles all of these basic functions with industry-specific configurations to deal with problems specific to your business.

Businesses should start considering a cloud-based ERP system when they have more than 10 employees and annual revenue of at least \$1 million. Medium and even large enterprises can take this route instead of deploying traditional ERP systems that are inflexible and costly, and are often marred by failed rollouts.

3. Why Do Businesses Need ERP, and How Can They Justify the Investment?

If your business is very small with few employees, then you can get away with separate accounting, inventory, and sales ordering platforms. But when your business needs to scale up, increasing headcounts and the number of business transactions and connecting with external suppliers, it's time to move to ERP.

ERP delivers a single source of truth for data, and reduces redundant tasks and errors that arise from entering the same data into multiple software platforms. ERP's automated processes drive efficiency, increase productivity, and reduce the cost of overstock by offering the real-time insight needed to make decisions. With ERP, you can make the predictions necessary to stay ahead of your competitors.

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ERP system costs will vary depending on company size, the selected platform and implementation partners, the customization scope, training and change management investments, and other factors. There's no single magic number, because each system is uniquely tailored to the company using it.

Cloud-based solutions will have a significantly lower implementation and operating cost than on-premise ERP systems. However, typical implementation costs range between \$50,000 and \$500,000 for SMBs. For medium to large enterprises, the price tag can range between \$500,000 and \$2 million.

Cloud-based ERP subscription costs will vary based on the system selected, but they typically range between \$20,000 and \$35,000 annually for 20 users, and anywhere from \$250,000 and \$400,000 per year for large enterprises with more than 100 users.

Businesses can calculate ERP's total cost of ownership and return on investment by calculating cost savings, increased sales opportunities and productivity, and efficiency.

4. Is ERP Secure, and Does it Support Compliance?

Cloud ERP providers use stringent infrastructural and operational security measures to protect the underlying network, servers and applications, all while controlling access to sensitive corporate data. In almost all cases, business data within a cloud ERP is more secure than self-managed, on-premise solutions.

Cloud ERP also can be configured to support compliance regulations, from data privacy regulations such as GDPR, to FDA rules around life sciences business compliance, to financial regulations. Businesses in regulated industries frequently use cloud ERP for backend processes. So you can be assured that your business can, too.

Prepackaged industry solutions also can help ensure that cloud ERP is configured properly for compliance within a given industry.

5. Which ERP Vendors Should Be Considered?

There are many ERP vendors, and most ERP solutions will meet the needs of a business. The right vendor solution for a business usually revolves around the level of support it can provide, if there are solutions tailored to the company's line of business, and partner network of support providers who can help implement, integrate and support the software over time.

Generally, businesses will not go wrong if they choose one of the big three ERP vendors: SAP, Netsuite or Oracle.

SAP in particular deserves a look, because it both is the largest ERP vendor, and because it offers a range of software solutions based on business size that can be migrated to larger solutions as a company grows. For businesses using ERP for the first time, SAP offers SAP Business One for small businesses, and SAP Business ByDesign for fast-growing and medium-sized companies.

To learn more about ERP and how it can help, download our free guide, *Understanding Cloud ERP for Non-IT Executives*, or contact one of our consultants at (801) 642-0123 or info@nbs-us.com.