

SMBS: THINK YOU'RE TOO SMALL FOR ERP? THINK AGAIN

CAN YOU AFFORD NOT TO INVEST?

Data Source

In this report Mint Jutras references data collected from its 2016 Enterprise Solution Study, investigating the goals, challenges and status of those solutions that are used to run businesses today. It also benchmarks performance of these implementations.

The study collected ~525 responses from companies of all sizes. For this report we focus on companies with annual revenues of \$100 million or less and we refer to this subset of 272 respondents as small to medium-size businesses (SMBs).

Small to medium-size businesses (SMBs) face tough decisions from the very beginning. In the very early stages you have big dreams, but limited capital. Any capital you do have must be invested in an operational foundation that will directly build the business. Back office solutions such as Enterprise Resource Planning (ERP) may seem like a luxury you simply can't afford. So you start out running the business by the seat of your pants. "Management by walking around" is common. So are manual processes and spreadsheets. Decision-making is driven more by gut feel than data and hard facts. And that works... for a little while. But then you have a bit of success and you start to find yourself stumbling a bit.

You start off thinking, "All we need is..." At first your list might be quite small. Your sales team can't live without a tool to manage contacts, opportunities and pipeline. So maybe you find some inexpensive (or even free!) software. Accounting needs to balance the books and turns to Quicken or Quickbooks. Operations needs some rudimentary inventory control. Another inexpensive or free piece of software fills that gap. And you're still managing orders in spreadsheets. None of these talk to each other, and before you know it, your "back office solution" is held together with the equivalent of baling wire and duct tape.

These same solutions that were intended to solve problems and save time are now costing you in terms of efficiency, productivity and may even be limiting you in terms of scaling your business. In other words, they are holding you back. If you don't have a solution that is helping more than it is hindering your business, if it is not giving you a distinct competitive advantage in today's digital world, if it is not a complete solution that is easy to use, then you are definitely operating at a disadvantage. While you might think you are saving money by not investing, instead you are more likely to be leaving money on the table. It's time to make a move.

WHAT IS RUNNING YOUR BUSINESS TODAY?

While spreadsheets, manual processes or desktop solutions might suffice in very early stages of start-ups, with any kind of success at all, they quickly become inhibitors rather than enablers of growth. Yet many continue to limp along with systems that fall far short of a modern, technology-enabled, integrated ERP solution. Many today use the acronym ERP as a blanket term to

Definition of ERP

Mint Jutras defines ERP as an integrated suite of modules that provides the operational and transactional system of record for your business. However most ERP solutions today do much more. And yet most SMBs settle for something less, leaving them with little control and even less visibility into how best to grow most profitably.

represent any kind of software used in the running of a business and therefore a good percentage think they are running ERP when in fact they are not. Others believe ERP is only for the “big guys.” They can’t possibly afford it. And yet, Mint Jutras would contend perhaps they need it even more than their larger counterparts.

To be clear: ***Mint Jutras defines ERP as an integrated suite of modules that provides the operational and transactional system of record for your business.***

Integrated is a key word in our definition and perhaps the biggest reason why, if you are an SMB, you can’t afford **not** to invest in ERP. You need most, if not all the key components required by large enterprises, and yet you don’t have the deep pockets to stitch different pieces of the puzzle together to make it a cohesive solution.

Furthermore, while our definition represents the minimum requirements, most ERP solutions today can do much more. And yet most SMBs settle for something less, leaving them with little control and even less visibility into the data needed for effective time management and data-driven decision-making. Yes there are complex and expensive solutions on the market, but there are also very affordable alternatives that provide a complete and integrated solution.

What are some of the tell-tale signs you do indeed need an integrated solution?

- **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 spend more time searching for data than you can really afford:** You’re operating blind, not knowing where or when a crisis might develop. You need data at your fingertips and you need better time management.
- **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?
- **Your office manager also manages your payroll and administers benefits:** The same person who orders your office supplies is the person your employees turn to when they have a question or issue

with their benefits. And this person also runs your payroll. Is that person expert and up-to-date on the latest payroll regulations? Does this involve spreadsheets? Are they 100% error-free? Do you have a backup if this person is ill, injured or takes an extended leave of absence?

- **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.
- **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.

And then of course there is the digital economy. The Internet has leveled the playing field. Companies of any size can establish a global presence. But as you build your brand globally, you better be able to communicate, collaborate and conduct business at an unprecedented speed and with a high level of transparency.

Many companies, particularly SMBs, overestimate their digital preparedness today. While almost half (48%) of the SMBs participating in the 2016 Mint Jutras Enterprise Solution Study felt they were already well-prepared, more than 80% still rely at least partially on spreadsheets, paper and/or manual processes to manage activities and only 20% to 40% have a completely digital system of record of different types of transactions. And many of those digital records still require manual entry.

So if you find yourself less than fully prepared, you're not alone. And that means there is still time to gain a competitive edge. But the window of opportunity is rapidly closing. If you are a first time buyer of ERP or perhaps struggling with an outdated or broken solution, the time is ripe for investing in a complete solution that leverages digital technologies.

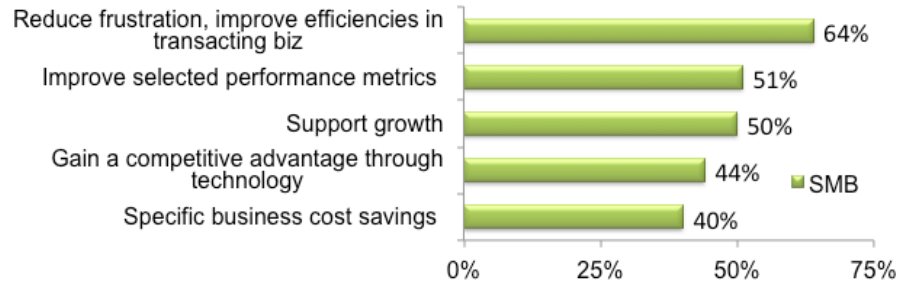
EYES WIDE OPEN: ESTABLISH GOALS

Nobody should embark on an ERP journey however without establishing some clear goals. Fortunately most do. Only 3% of our 2016 Mint Jutras Enterprise Solution Study SMB participants indicated they had no specific goals – they just knew they needed to do something. But the key to success is not only establishing goals but also in monitoring progress against meeting them.

We asked our study participants to select their top three goals for ERP (Figure 1). Relieving frustration and improving efficiencies are right at the top of the list. If you are plagued with frustrated employees and inefficiencies you might be thinking an ERP implementation is the very last thing you should consider. Granted, early ERP implementations tended to produce more of the same.

And this was enough to scare away smaller companies, particularly as many industry observers focus on failed and expensive implementations that never seem to end. And of course you initially need to spend money (and time and effort) to implement a solution. So why go to all that trouble if you are just going to perpetuate the situation? But that type of thinking is outdated. Solutions today have progressed far beyond this, offering more features and technology at a much more affordable price.

Figure 1: Top 3 Goals for ERP

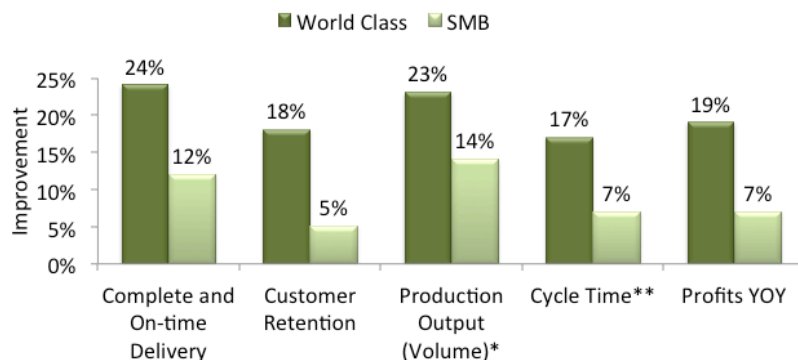


Source: Mint Jutras 2016 Enterprise Solution Study

However, 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. What can you reasonably expect in terms of performance improvements and cost savings after implementing ERP?

We actually benchmark some of these improvements in order to measure the overall performance of ERP implementations and determine those which are "World Class."

Figure 2: Selected Performance Improvements Since Implementing ERP



*Manufacturing Only

**Manufacturing and Distribution only

Source: Mint Jutras 2016 Enterprise Solution Study

World Class ERP Performance

Mint Jutras defines World Class using a composite metric which includes:

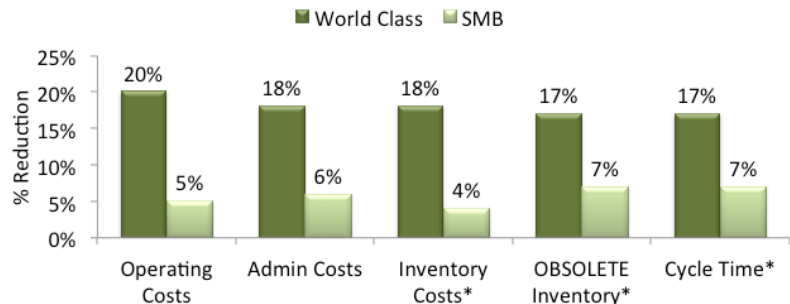
- ✓ Actual measured results experienced since implementation
- ✓ Progress made in achieving company-specific goals
- ✓ Current performance in selected KPIs

The top 15% of all survey respondents comprise "World Class." The remaining 85% are referenced as "All Others."

The actual savings can be as diverse as the companies themselves. The metrics we use (Figure 2) are quite general, but are selected as universally applicable to most any business (those specific to manufacturing and distribution are flagged as such). We encourage you to be more specific. Perhaps there are some select elements of operating cost (labor, facility, shipping costs, etc.) or a segment of inventory from which you can gain the most benefit. And also consider other improvements that may either directly or indirectly impact top or bottom line performance.

While the improvements shown in Figure 2 do impact top and/or bottom line performance, cost savings (Figure 3) hit the bottom line directly and also initially help defray the cost of the solution. We find the average SMB achieves 100% ROI in approximately 27 months (2.28 years).

Figure 3: Cost Savings Experienced Since Implementing ERP



*Manufacturing and Distribution only

Source: Mint Jutras 2016 Enterprise Solution Study

There is no logical reason not to aspire to becoming a World Class implementation. Setting your sights too low can be a lot more dangerous than setting them too high.

PAYING FOR YOUR SOLUTION

New ERP solutions used to always require capital investment, but cloud options, subscription-based pricing and solutions that are delivered as Software as a Service (SaaS) provide more options today. Capital investments (CapEx) in hardware and software can often now be replaced with operating expense (OpEx). Of course there will be some up front costs associated with a new implementation, but savings in efficiency and productivity, in addition to hard cash savings, can help defray those short-term costs. More on SaaS later.

While the cost savings and improvements of World Class ERP implementations are typically more than double (or even triple or quadruple) those of the average SMB, it is important to note that even the average cost savings can easily cost justify the initial expense. Yet there is no logical reason not to aspire to becoming a World Class implementation. Setting your sights too low can be a lot more dangerous than setting them too high.

The aforementioned performance improvements and cost savings should be easy to measure, particularly once you have the basics of an ERP system in place. However, what about that top goal of reducing frustration? Typically

productivity and efficiency are a bit harder to measure, and the whole user experience in working with any type of solution is a bit more subjective.

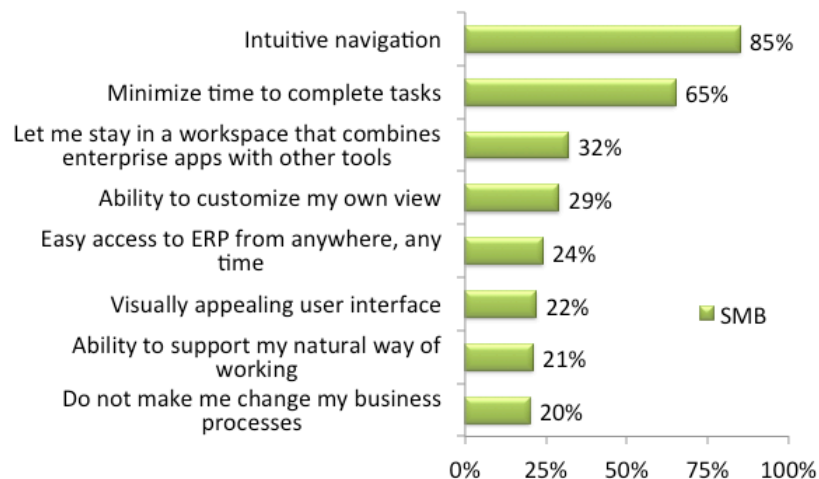
RELIEVING FRUSTRATION AND INEFFICIENCIES

But frustration doesn't only come from software that is hard to use. Frustration can easily arise when individuals struggle without the applications necessary to run the business. In these cases, they often turn to spreadsheets to fill the gap. While spreadsheets represent a comfort zone, so to speak, they only add to inefficiencies and lack of productivity, not to mention the "worry factor." The chances of errors within spreadsheets is a well-known, yet constantly overlooked factor.

But when applications are implemented, the level of frustration is a combination of completeness of solution (to avoid work-arounds and those spreadsheets), as well as a function of how easy (or hard) it is to use. "Ease of use" used to be viewed as "soft" or "fuzzy" and yes, it's an intangible. Users of early systems were simply expected to "grin and bear it." But your human assets are certainly among your most precious resources today and even the intangibles can cost you in terms of time, effort and cold, hard cash.

We ask survey participants to select the top three most important factors in defining "ease of use" (Figure 4).

Figure 4: Define ease of use by selecting your "Top 3"



Source: Mint Jutras 2016 Enterprise Solution Study

Mint Jutras survey participants consistently put efficiency (minimizing the time to complete tasks) near the top of the priority list of "ease of use" factors. "Intuitive navigation," which takes a commanding lead over all other factors in SMBs, goes hand in hand with minimizing time to complete tasks. In fact Mint Jutras strongly believes that oftentimes the best user interface is no user

interface at all. The more routine and menial tasks can be automated, the more you start to really improve on productivity and efficiency. So don't just look for "beautiful software;" (note where "visually appealing user interface" falls in the priorities), look for software that can eliminate those routine and repeatable tasks and free up your people to truly add value to your business.

The remaining factors shown in Figure 4 do not just represent wishful thinking by our survey participants. These are real features that should be available in modern solutions today.

If whatever you use today to run your business (including spreadsheets) does not get a passing grade in terms of ease of use, it could be hiding many other performance issues and could even negatively impact your ability to attract and retain talent. That alone could justify investment in your first ERP or a replacement.

STRAPPED FOR CASH AND CAPITAL?

So far we've been making a case for taking the plunge on a new, modern ERP solution. But if you are a small or midsize company that is growing, there is a very good chance you might be strapped for cash. However, that is no longer a valid reason for postponing your ERP journey. Many solutions today are available as Software as a Service (SaaS).

In spite of, or perhaps because of the huge volume of discussion around SaaS and cloud computing, there remains much confusion over the terminology. Many use the terms "cloud" and "SaaS" interchangeably, but there are some important differences. So let's distinguish between the two:

- Cloud refers to access to computing, software and storage of data over a network (generally the Internet.) You may have purchased a license for the software and installed it on your own computers or those owned and managed by another company, but your access is through the Internet and therefore through the "cloud," whether private or public.
- SaaS is exactly what is implied by the acronym. Software is delivered only as a service. It is not delivered on a CD or other media to be loaded on your own (or another's) computer. It is generally paid for on a subscription basis and does not reside on your computers at all.

All SaaS is cloud computing, but not all cloud computing is SaaS. Traditional on-premise or hosted solutions might (or might not) be accessed via the cloud, although this is more likely to be a private cloud and may not relieve you of the burden of an outlay of cash. If you are short on capital or strapped for cash, SaaS may be your best option. Not only is there no capital outlay for hardware and upfront software licenses, but this deployment option also allows you to account for the investment as operating expense (OpEx) versus a capital expense (CapEx).

All SaaS is cloud computing, but not all cloud computing is SaaS.

The bottom line: You are able to afford a much more complete and robust solution. But that is not the only benefit of a SaaS solution.

For years now Mint Jutras has been documenting the perceived appeal of SaaS, but the adoption of SaaS has grown to the point where we can now compare the anticipated benefits against the actual benefits realized from real SaaS deployments. We ask those running more traditional on-premise or hosted solutions what they find appealing about SaaS. We ask those who have a SaaS deployment what benefits they have actually realized. In both cases, respondents are allowed to select all that apply.

While those just considering SaaS selected an average of 3.57 potential benefits, those actually running SaaS selected 4.83, which explains why overall the percentages in the second column of Table 1 are bigger than those in the first. In short: SaaS has delivered more than anticipated.

Table 1: Anticipated versus Realized Benefits of SaaS in SMBs

	Anticipated Benefits	Benefits Actually Realized	% More than Anticipated
Improved IT security	37%	47%	27%
More viable business continuity plan (e.g. natural disaster)	37%	52%	41%
Ability to treat as OpEx versus CapEx	41%	57%	39%
Speedier business innovation	22%	33%	50%
More innovation through more frequent updates	42%	48%	14%
Lower total cost of ownership	49%	59%	20%
Reduced cost and effort of upgrades	54%	61%	13%
We have substantially lowered our risk	30%	44%	47%
Elimination of hardware and associated maintenance	58%	64%	10%
Lower start-up costs	32%	35%	9%
Ease of remote access for distributed workforce	57%	67%	18%
Ease of bringing up new remote sites	28%	39%	39%
Reduced or eliminated IT staff	55%	35%	
More strategic use of our IT resources than just "keeping the lights on"		53%	

Note: IT staffing questions were worded differently in the two different questions, making them difficult to compare

Source: Mint Jutras 2016 Enterprise Solution Study

SUMMARY AND RECOMMENDATIONS

All too often SMBs try to compete with something less than a complete and integrated solution, making do instead with a collection of disparate applications held together with the equivalent of baling wire and duct tape. They don't have the expertise or the resources to fill all the gaps seamlessly and quite often resort to filling those gaps with spreadsheets, paper and manual processes.

If you are thinking your situation is not that bad, do you think it will be any easier to fix the problem when things get worse? Or when your business is larger and more complex?

While it has always been difficult to create and maintain a competitive edge with these types of marginal solutions, it is even more difficult today in the digital economy, where business needs to operate at the speed of the Internet.

If you find yourself in this situation, struggling to compete, you are a potential candidate for a new system to run your business. If you are still on the fence, you may simply be putting off the inevitable.

Why wait? Yes, deciding to purchase a new ERP is a big decision. If you are thinking your situation is not that bad, do you think it will be any easier to fix the problem when things get worse? Or when your business is larger and more complex? For years Mint Jutras has been cautioning against treating implementing or replacing ERP like brain surgery... you don't do it unless the patient is dying. But selecting and implementing a new system that runs your business, when your business is under distress, is the least optimal timing.

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

- Are you in control?
- Are you focused entirely on running your business? Or do you spend more time searching for and collecting data than analyzing it and making decisions?
- Are all the departments in your organization supported? Is your current solution complete?
- Are you managing against realistic and achievable goals?
- Are you saving money or leaving money on the table?

There are dozens more you could ask. Depending on how you answered the questions above, instead of asking if you can afford ERP, the better question to ask is, "Can you afford not to invest?" 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. Why not get started now?

About the author: *Cindy Jutras is a widely recognized expert in analyzing the impact of enterprise applications on business performance. Utilizing 40 years of corporate experience and specific expertise in manufacturing, supply chain, customer service and business performance management, Cindy has spent the past 11+ 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.*