THE 7 COSTS OF IMPLEMENTING AN ERP SYSTEM

Insights from an Industry Leader

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EXPERT INSIGHTS

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The following costs are typical costs associated with the initial implementation of an ERP system. Understanding these costs may help you better evaluate the estimates you are given so you are not surprised by the proposal.

1 SOFTWARE LICENSING

Initial License Costs: This approach to purchasing an ERP, which is not as common today, has a large upfront purchase of software and then a smaller annual fee for ongoing maintenance. The ongoing maintenance fee is typically around 20% of the value of the initial license. As mentioned, this is not as common today and was beginning to be phased out around 2020.

Subscription Fees: This is the most popular model, especially for Cloud ERP systems. The fees can be per user and/or consumption based.

If the per user subscription is based upon named users, then each individual user that is assigned a login will add to the cost of your subscription even if the user never logs in. For example, if you have a warehouseman named Charlie who needs to use the system, then Charlie would be a named user you would pay for. If Charlie should leave, you can delete him from the system, which would free up that named user for another person.

A per user subscription can be based upon the number of active users. This allows you to add as many users as you need in the system, but only a specified number of users can actively use the system at any given time.

Both the named user model and per user model may have fees associated with your consumption of computer resources. For example, if you frequently execute resource-heavy processes, then your consumptions will be higher than a company that seldom runs a heavy-resource process. The fees for the consumption can be based on the actual utilization of resources, or it can be blocks of resources sold as levels. If it is based on levels, you will be contractually bound to buy the next level up if you exceed the resources of your current purchase.

With consumption-based models, you simply purchase a level of resources you estimate to consume, and then an unlimited number of users can access the system simultaneously. This model offers you the ability to roll out the ERP system to all users without the burden of doing a cost benefit analysis of adding a specific user.

2 IMPLEMENTATION COSTS

Consulting & Vendor Support: The more complex an ERP system is, the greater the likelihood you will need the help of a consultant or the ERP vendor to address the system configuration and customizations. In addition, training is often necessary. The ERP vendor may offer online training classes to help reduce some of the fees. Regardless of the complexity of the ERP system, some help will be required, especially if you do not have experience implementing one. These costs can vary from thousands to hundreds of thousands of dollars, depending on the complexity and scope of your ERP needs.

I have observed only a very small number of successful implementations that were completed without any help from an experienced consultant. The small number of successful, self-implemented systems always had a very motivated project manager who had prior ERP implementation experience.

Customization & Integration: Improving your efficiency or addressing a unique business requirement may necessitate modifying the ERP system. Customizations often involve more time and expertise, leading to higher fees. Customizations also require the participation of the client to ensure that the extensions have been properly done. This testing should be done throughout the implementation to ensure the system is ready when you want to go live and not just one time after the modification was made.

Integration is another area that may add costs to your implementation. Some integrations are pre-set and provided when you subscribe to a software solution. In many cases, these integrations perform as expected and do not require any changes. However, there are cases in which additional fields are required, so the integration needs to be customized. Additionally, you may want to integrate real-time data to or from a specific system, device or machine. In this case, the full cost of the integration will be charged to the implementation.

Data Migration: This is one of the most tricky and risky tasks you will experience during the implementation. On the surface, it may look straightforward. You want something from your old system moved to the new system, and all you can see are the values in front of you. However, what is not seen is the complexity of logically linking the values and the numerous fields that are required to create a functional record within the ERP system.

Then there comes the big issue of data quality. Here are a couple of things affecting quality that you will need to consider:
- Old data – how necessary is it to move every single record? For example, what about a customer that hasn't done business with you in 10 years? That customer could be out of business or could have moved or been acquired, so whatever data you have for them is greatly discounted.

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IMPLEMENTATION COSTS (CONT...)

- Orphaned data – throughout the life of a system, it is not uncommon for supporting values on a record to have changed. For example, you may have started with customer classes A, B and then changed to DIST, RETAIL, but there are customers still in the database with A, B. This will need to be corrected before the data is migrated.

- "IncompSistent" – incomplete or inconsistent values in a field. Trying to address this often ties someone up for hours or days.Often, on the first pass of a migration these are not caught until testing and even still, some "IncompSistent" fields may make it into the live system.

- Values that don't balance – whether it's a sales total, subledger, inventory counts or any other total, as you migrate the data the "totals" need to tie-out so your reports are accurate. If this step is cheated, then the impact can affect your usability of the system to the point of frustration and even abandonment.

It is important for the client to address the data clean up with some help from a consultant. Otherwise, the costs of the implementation increase rapidly. Data cleansing is a time-consuming task.

3 TRAINING & CHANGE MANAGEMENT

Employee Training: It is without question that employees need to be able to effectively use the system. When do you start training them?

I have observed large companies successfully train users during Lunch & Learn sessions. Once a week they would pull in small groups of users to gradually introduce them to the system. The intent of the sessions is to introduce the users to such things as navigating the system, adding records, and deleting, changing, and adding notes in small increments to avoid overwhelming them. This incremental progression continued into their functional areas such as purchasing, inventory, job costing, and finance, so that within 30 days of go-live the users were prepared to do their jobs in the new system.

We recommend the training for the users be done by client personnel. A good plan is to form a client implementation team that will learn the details of the system and then train their coworkers.This increases the client's self-reliance by developing an in-house team that can address any post-live support issues.

There are also online training sources for many systems. The challenge with the online approach is having the discipline and desire to watch videos that are not very entertaining, and, in some cases, difficult to understand.

An approach related to online training is online training with a dedicated instructor. I have found this to be effective because the students can interact with the instructor, and when this is coupled with a limited number of on-site training visits, it's proven to be quite beneficial.

In summary, your training costs will vary widely depending on the number of users, the complexity of the modules you are implementing, and the method of training you choose.

Change Management: When a new ERP system is implemented, there often is a strong tendency to make the new system function like the old system. This is typically a bad move because decisions are being made based upon a very limited knowledge of the new system. The ideal is to go live with a very small number of changes to the new system and push back on "luxury" changes until after the users have gained competence in using the system.

However, the ultimate goal is to go live with the new system. If there is functionality that the users are adamant about, then providing them with the change is a good decision to keep the implementation on track. The key is efficiently managing the organization's shift to the ERP system. This includes handling user resistance, ensuring smooth adoption, and providing ongoing support. These can require additional resources and could stretch over months or even years.

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ONGOING MAINTENANCE AND SUPPORT

Software Updates and Upgrades: Either you control when the ERP system is updated, or the software publisher does. Any change that was made to the ERP system or third-party add-on that is in use will have to be updated & tested once the update is complete. Even small maintenance updates may cause disruption, which will add to the ongoing costs.

While these costs may add to frustration, it is imperative to keep in mind that you are maintaining your investment much like you need to make home repairs or replace things that wear out. The only issue is that once software is written, it will continue to work as originally written provided everything it depends on remains the same, which does not happen. Technology changes rapidly, and software publishers work diligently to keep their systems up to date.

IT Support: You will have ongoing questions and require help at times. This help will be provided by your own in-house IT staff or by external resources that will need to allocate time to address your needs. These costs need to be taken into consideration.

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INFRASTRUCTURE COSTS
(FOR ON-PREMISE SOLUTIONS)

Hardware and IT Infrastructure: This applies to companies that require an on-premises ERP system. If this is the case, you will need to invest in servers, networking, database software, backup software, and security infrastructure to run the system. In addition, you may want to purchase redundant hardware to ensure continuous operation. These upfront costs can be significant, and there will be ongoing costs as well.

IT Staff: An on-premises solution often requires dedicated IT personnel to ensure up-time, handle troubleshooting, and ensure your backups are executed as planned. Too often, the backups are enthusiastically done in the beginning, but as months or years pass, they are forgotten, only to be remembered when there is a significant system event, and there are no current backups available.

6 OPPORTUNITY COSTS

Business Disruption: Your employees will need to dedicate time and effort to the implementation of the ERP system, which will divert them from their regular duties for a time. This may result in the temporary reallocation of people within the company to fill the void left by the people assigned to the implementation team.

Opportunity Costs: The people you assign to the implementation team may impact your ability to invest in other initiatives or business areas. The ideal is to assign bright and capable people to the implementation team that will produce enhanced understanding of the business. These same people are also positively impacting the business in their current roles, which may increase their performance in their specific areas after they are reassigned.

7 ADDITIONAL COSTS

Third-party Applications: The extent of functionality in the ERP system is limited, so it is highly probable that third-party applications will be required to provide you with a complete solution.The third-party solutions can range from simple to complex, and when they are complex a separate implementation cost budget may be required along with the cost of the application itself. Common third-party applications are for tax calculations, human resources, payroll, and specialized vertical functionality.

Scalability: The cost of the ERP system will also increase as the demand for its use increases. As your business expands, you will need to allocate a budget for additional licenses, systems resources, and/or on-premises computing resources.

ESTIMATED COST RANGES

Costs for a complete ERP system with implementation will vary depending on the subsystems implemented. For example, the implementation of a small business distribution system is much less expensive than the implementation of a small manufacturing system.

While the number of modules affects the cost estimate, so does the number of users.The primary focus of the implementation of an ERP System is a successful go-live, and the challenge is avoiding failure.There are several reasons why it's challenging; one is that the users need to be prepared for the go-live. Determining an estimate to cover these costs is a challenge, because the ability to adapt to a new system is not uniform across all people. One user may be perfectly good with 30 minutes of instruction, while another may require significantly more time.
Also, an age-old problem is resistance to change. Sometimes it's passive, and sometimes it's outright, but when a key or long-time employee is resisting, the implementation team may have to spend additional time to help win over that employee.

The number of users involved will also increase the cost. In a small group of users, decisions are made and implemented quickly into the ERP system. This is why it is better for a small company to invest in an ERP system that they can grow into rather than grow out of.

Large companies with many users and formalized departments require much more time to implement. Just the coordination of a meeting can be a challenge when trying to align everyone's availability to make set-up decisions. In addition, the impact of each decision needs to be carefully vetted against the needs of each department that will be affected. The required analysis is significant and must be accounted for.

As of the writing of this article, the following are our typical ERP system costs, including software and training:

SMALL BUSINESSES

Estimates at the upper range allow for light customizations for a single-site company.

Distributors:
$50,000 to $100,000

Manufacturers:
$70,000 to $170,000

MID-SIZED COMPANIES

Estimates at the upper end allow for multiple sites within the United States and a moderate number of customizations.

Distributors:
$150,000 to $250,000

Manufacturers:
$200,000 to $500,000

LARGE ENTERPRISES

Estimates range from a large single site to a multi-site international company with heavy modifications and significant integrations.

Distributors:
$500,000 to $$$$

Manufacturers:
$750,000 to $$$$

FUTURE-PROOF YOUR GROWTH!

An ERP system is a significant investment, and when done properly can be the cornerstone of growth for your business. When a business is small, the costs are a fraction of the large enterprise costs. Therefore, it would behoove you to consider a system's ability to address your needs for today and tomorrow in both functional and financial terms.

The long-term benefits such as streamlined operations, better data visibility, and improved decision-making can outweigh the upfront expenses. However, your decision should include all the costs for your implementation to be a success.

Clients First Business Solutions is a provider of ERP systems and related services. Our clients range from single-site companies to multi-site international enterprises. Our team is experienced in laying a solid foundation for your business with your chosen ERP system.

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