VIEWPOINT

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The $64,000 question: Should you go all in on ERP or go for a lower-cost alternative?

There is considerable debate in the industry currently on the costs of ERP systems deployment. Opinions vary on what it is reasonable to expect to pay for a fully integrated solution that helps the management team to effectively run the business. A recent study by *Panorama* of 1,300 global companies that had implemented an ERP project used a percentage of turnover as an indicator across the various platforms surveyed. Taking all up costs into account, the figures varied enormously between SAP, Oracle, Microsoft and Tier 2 players.

Hardly surprisingly, SAP had the highest costs with an eyewatering 18.6 per cent of turnover. Oracle weighed in at 10.6 per cent, the Tier 2 band cost 6.8 per cent, with Microsoft trailing with five per cent. However, these findings were challenged by a recent Info-tech Research Group report. It suggested organisations should expect to spend just one per cent of their annual turnover when replacing their ERP systems. Of this, 40 per cent is spent on project staff, 25 per cent on consulting services, 10 per cent on internal costs, 15 per cent on transition and training, five per cent on hardware and five per cent on software.

With such a vast gulf between both studies, it is hardly surprising that companies become confused when it comes to making such important investment decisions. Bitter experience has taught them that you get what you pay for and that if the deal seems too good to be true, it usually is. On the other hand, in the world of ERP, paying top price is no guarantee of success. The reality is that price should only be taken into account when all of the other hygiene factors fall into place. Using a percentage of turnover as a measure is flawed thinking in that respect.

In the past, ERP systems were seen as five- to seven-year investments. These days, however, they are expected to last much longer. Moreover, today's ERP systems cover a far wider range of operations than past systems. They therefore involve strategic decision making that goes far beyond the immediate future. For example, an ambitious £50 million company expecting a 20 per cent compound growth rate will expand to a £258 million business in 10 years. In that time, it will have generated almost £1.3 billion in turnover.

Throughout that journey, it will have spent over £1bn in cost of sales alone. If, by selecting the right ERP solution, it has managed to reduce that by just one per cent, it will have generated over £10m in additional gross margin. This is apart from reducing costs such as waste, packaging, transport and labour while improving customer satisfaction. But if an unsuitable ERP system is chosen, the disruption is incalculable.

Making such an important decision where price is the deciding factor needs careful thought. The consequences of getting it wrong only become evident when well into the deployment phase and beyond. The phrase "caveat emptor" has never been more appropriate. FPJ