RAMBASE

How much does an ERP system for small and medium-sized businesses ACTUALLY cost?

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This is a key question that many people try to find a sensible answer to when considering upgrading or replacing their business system. In order to answer this question, it is important to clarify two underlying questions:

"What type of ERP system should you have?" Meaning you must clarify what functionalities the system should contain and what problems the system should solve for your company.

"How should the system be delivered?" Here we are talking about technology such as cloud, cloud-based or on-premise. But the important thing to figure out is who is responsible for what in the delivery and how will the system be supported in the future?

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What type of ERP system should you have?

Most small and medium-sized businesses (SMB) in wholesale and manufacturing need system support to handle their complex processes effectively. Different company characteristic requires different details when it comes to defining your system requirements.

Every company needs basic process support for their employees, such as handling salaries. All companies must be in control of their financial numbers, as well as sales, logistics and possible production. Some systems have modules to cover all these areas, some systems have only one or two. In addition, there are major differences in how "deep" the different systems go with regards to functionality and flexibility.

> "Nobody wins by offering a system that does not fit and no one uses."

The first step is therefore to find out which problems your company needs the ERP system to solve. It may sound easy. But it can be challenging. No system is the same, even though on paper they advertise covering the same need. Therefore, it is smart to examine how the different system providers can meet your needs. Suppliers should try to be system advisors to some extent for their potential customer – listening to their challenges and pain points. It is a balancing act between promoting product benefits and meeting customer's real needs. Nobody wins by offering a system that does not fit and no one uses.

Also, the solution you may think is the best based on a few internet searches, may not be the perfect fit when you look under the hood. To make sense of it all, here are some main ways to group the different system options.

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1. Financial Systems

Payment / HR

Finance

There are many systems that cover basic processes for HR, payroll and finance in the same system. Some of these systems also include travel expenses and various forms of invoice scanning. If you do not need extended functionality that may cover more countries and take into account logistics and production, then this type of a system would make sense to choose.

If you decide on such a system and also have need for CRM, sales, production or logistics functionality, these processes must either be covered by other professional systems, or manual routines / Excel.

Good examples of relevant financial systems are: Tripletex, xLedger, PowerOffice GO, and UniMicro.

2. ERP systems for the SMB market

Finance

Sales

Logistics

Production

Calling something an ERP system often becomes a matter of definition. In this case, we mean systems that have modules for sales, logistics or production, in addition to finance. Within each system, the modules will vary greatly with regards to depth of functionality. Some systems are very flexible and can be customized and further developed individually for the different users, while other systems rely more on standard processes.

There is a sharp distinction between systems that have production functionality and those that do not. The alternative by not including production as a main feature in your software suite, is to continue with manual routines or use a separate system which is either run manually alongside or integrated into the financial system. In this group of systems, there are many choices globally.

Good examples of relevant ERP systems for the SMB marked are: Navision (Dynamics 365 Business Central), Visma.net, Monitor and RamBase.

3. ERP systems for the ENTERPRISE market

In the early days of the ERP market, there were fewer systems to choose from, resulting in medium sized companies choosing complex enterprise systems to cover their complicated processes. Also, whilst several of these enterprise systems were previously accessible to smaller companies, in recent years suppliers have made conscious choices to deliver to a higher market segment.

Although enterprise systems often have the same basic functionality as SMB systems, these systems often have much greater configuration capabilities, support for complex processes, multi-country customization, complicated logistics, etc. Therefore, they are often more expensive when it comes to setup and monthly cost, compared to other systems and usually take a long time to implement – typically a year or more.
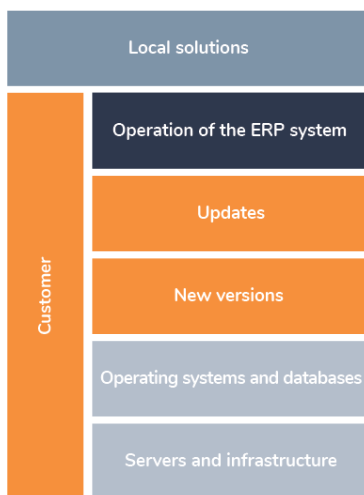
Examples of such systems are IFS, Dynamics 365 for Finance and Operations (formerly Dynamics AX), and Infor M3.

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How should the system be delivered?

To calculate the cost of an ERP system and be able to compare different suppliers against each other, it is important that the basis of comparison is as representative as possible.

Many have heard that "cloud" is the new way of delivering a system. Often the discussions are centered around security aspects, but it is important to also examine the cost aspect for the different delivery models. Theoretically, one can achieve the same level of service no matter how the system itself is operated. The important distinction is how the service is delivered and how it will be charged. We can roughly divide system deliveries into three different models.
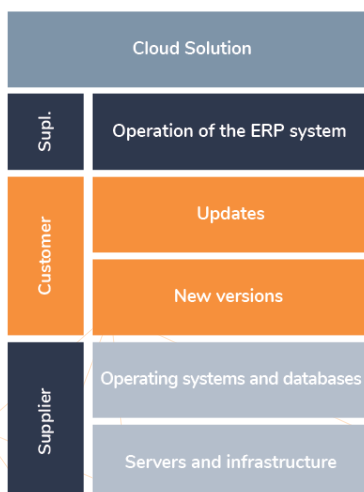
1. On-premises solution

Local solutions
Customer

Operation of the ERP system
Updates
New versions
Operating systems and databases
Servers and infrastructure

An **on-premises** solution means that the system is installed on the customer's own infrastructure. The customer is responsible for ensuring correct licensing of all necessary equipment and operating it properly. With this solution it is customary to buy the license and hosting equipment and pay maintenance regularly, or to rent the license and hardware at a monthly price.

It is also common to have a subcontractor who takes care of the maintenance and management of the system, but this is often a different supplier than the system supplier. Upgrades and new functionality must be carried out by the customer or these services can be bought from others. The normal solution is to buy additional capacity or functionality when the need occurs.

This system choice is still common among some larger companies and others who have special challenges related to system functionality.

2. Cloud solution

Cloud Solution

Supl.	Operation of the ERP system
Customer	Updates
	New versions
Supplier	Operating systems and databases
	Servers and infrastructure

A **cloud solution** is not a precise concept since there can be several different architectures and ways of implementing these systems. A common understanding is usually that the provider takes care of the operation of the system and places it either in a public cloud such as Azure or AWS, or in a local cloud provided by the supplier itself, or in something that may be more reminiscent of a traditional ASP – environment, such as salesforce.com.

Besides taking care of the operation of the system, the system provider also ensures that all infrastructure is in place, licenses are sufficient, and so on. In addition, updates and new versions are usually made "available" to the customer, but they must involve themselves in the actual upgrade and pay for the consulting hours connected to the upgrade. In terms of price, it is common for the service to be divided into 3 different parts:

- The customer pays the licenses either as rental costs per month or they buy the licenses and pay a maintenance cost per year. This provides access to updates.

- The customer pays a fixed fee for operation of the system. This contains what is needed including infrastructure, licenses and databases to operate the system.

- The customer pays for the services provided by upgrades and changes to the system. Of course, there is no problem of incorporating this into the fixed cost, but the normal way is to keep it out or include on a "time and materials" basis. The main reason is that the supplier cannot predict how costly future upgrades will be.

3. Software as a Service

Software as a Service (SaaS) is a delivery form where the supplier takes all the responsibility for the system being up to date and operating correctly. This means that the customer's task is limited to only learning how to use the system, everything else is the supplier's responsibility.

How and when upgrades are executed varies between different SaaS-systems. Some systems run regular version upgrades, while others collect them for larger releases. Some take down the system while upgrading, others can do upgrades while the system is running. In any case the supplier is responsible for implementing and testing the upgrades and maintaining the security and functionality of the system.

The regular cost of a SaaS-system is often a monthly "per-user" subscription fee. This means that costs such as servers, other licenses, future upgrades, amendments to comply with legislative changes, etc. will be included in this subscription cost. RamBase is delivered as a SaaS-system.
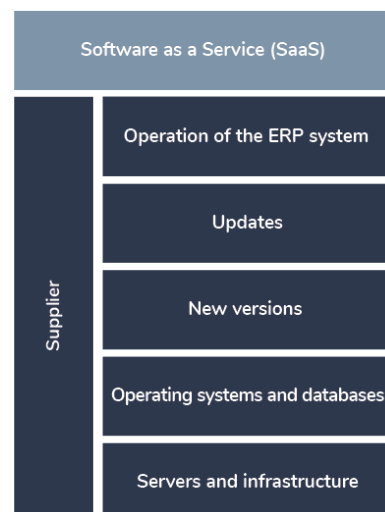
How do you compare these services?

Some systems can be delivered in multiple ways, while most systems only have one delivery form. Thus, one often faces the choice between two separate systems with distinct functionalities and different operating models. This makes the task of comparing costs between the different systems more complicated due to all the various variables. **At first glance, it may seem that it's cheaper to do everything yourself, but the reality may be different.** Let's give you some specific aspects to consider.

Technical debt is a term used to try and "put a number" on the challenges faced by companies when they resort to an "easy to implement"- solution, or postpone making decisions (and investments) regarding proper systems solutions. Many businesses have older versions of a system that works ok, but that "everyone" knows needs to be upgraded. By keeping outdated systems, companies also miss out on new effective ways of working. **Technical debt is the amount of investment you must make to reach today's expected level of system support.** That investment can consist of many things, such as: new licenses, consultancy costs for an upgrade project, training, new infrastructure, new systems to cover new ways of working, etc. This number is difficult to calculate and therefore often not prioritized by many management groups and boards. Thus, the cost, risk and consequences can be very high when you first decide to do something.

Upgrades is also an important element to consider, and the usual issue is whether the operation model itself ensures continuous upgrading or not. Regular upgrades are relevant for both SaaS-, cloud- and on-premise solutions. Examples may be when the authorities change the VAT rules, when new payment standards are rolled out or new legal requirements are made mandatory. Also, regular upgrades can mean bug fixes and small technical updates from the supplier. All these upgrades need to be tested before they can be implemented. **The difference between the various systems is how the cost associated with the upgrades becomes visible to the customer.** For SaaS-solutions upgrades, these are included in the subscription price. For the other system solutions, this must be negotiated together with the supplier. In addition, some systems also offer major version upgrades. This is often more than a technical upgrade, typically including new or improved functionality and it is important that the financial implications of this are also considered in the cost comparisons.

The *internal administration cost* of managing the system is an element that is easy to forget, but which often can be considerable. How much of the time spent on IT support really belongs to the ERP system? It is easy to count the hours that the suppliers have invoiced, but how much time is spent on internal coordination of suppliers, internal testing, planning, follow-up, etc. Again, this applies to both cloud solutions and local solutions.
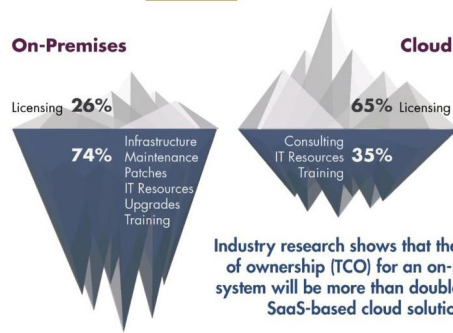
The *total cost over time* will vary based on the different delivery models. One thing that is important for many in the decision-making process is the actual financing, liquidity, and predictability of the investment. Without having the exact numbers on each item, it is difficult to set this up, but there are sometimes large differences in the accrual of costs. In this calculation, any support agreement with user support and continuous training must also be included.

The last cost element to consider is *licenses and hardware*, which is relevant if you consider managing the infrastructure of the system yourself. Both ongoing charges and depreciation costs on the investments need to be included. Written down hardware is not free; it still needs to be operated and a future hardware upgrade must be included in the system cost estimate. An illustrative way of highlighting the differences in the various system delivery models is done by The Software Report[1].

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Looking Beneath the Surface

On-Premises

Licensing **26%**

74% Infrastructure
Maintenance
Patches
IT Resources
Upgrades
Training

Cloud

65% Licensing

Consulting
IT Resources
Training **35%**

Industry research shows that the total cost of ownership (TCO) for an on-premises system will be more than double that of a SaaS-based cloud solution.*

*Cost compared over four years for 100 users. Average on-premises TCO of $1,400,570 as compared to $697,656 for a cloud-based solution.

The bottom line is that although the license costs for SaaS-systems may seem high, they are also a much larger proportion of the actual total cost versus that of owning and using a system. The actual figures will of course vary between systems, but the principle of the share of the total cost is important here.

Cost and time – how to make the right decision concerning cost?

This is the big question, and it may not always be possible to put a value on all the different cost elements. The important work when comparing systems is to get the most accurate picture as possible of the following cost elements:

Cost element	Description
Implementation	The actual implementation project
Annual rental cost	For SaaS deliveries and some cloud services
Purchase of licenses	License is activated upon purchase of the contract
Maintenance	Annual maintenance cost after purchasing licenses
Support Agreement	User support for functional needs
Hardware and infrastructure	Investments and depreciation for local solutions or shared / hybrid solutions
Operation of cloud solutions	Costs for operating solutions in the cloud
IT support	For local solutions or shared / hybrid solutions
Updates	Regardless of which mode of operation you choose
Major upgrades	For cloud deliveries and for local installations, this is common to do at least every 3 years
Internal cost for resources	How much time is spent testing, coordinating, following up and administering the solution?
Uncertainty	Costs that are simple to place. Can be specified as a percentage of the total.

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These are just a few examples to shed light on the different aspects concerning cost when choosing an ERP system. Suppliers should be able to give a clear number or estimate to many of these elements. Keep in mind that the monthly price is not the whole picture, and all the other aspects concerning the system delivery, need to be fully considered to achieve a true comparison. Questions you should ask potential system suppliers are:

1. How will the system handle changes in local laws and regulations? Who updates the solutions, how is this done and what does it cost to stay up to date?

2. Who is responsible for security in the solution? Technical security, updated operating systems, backups etc?

3. How should the system be kept current and up to date? Who should do what and how often should the system be updated? What is included in the price and what must be ordered and paid for separately?

4. What if the company grows a lot and new users must be added to the system? How do you ensure that the system has capacity, remains stable, and that the performance is just as good?

5. What happens if you reduce the number of users of the system? How long will you have to notify the supplier in advance and what costs could be associated with the change? (or are you committed to pay for the original number of uses for longer than you need to?)

6. How efficient is the implementation process? Are there templates and predefined processes in place for example, country account plans and reporting requirements, or does everything have to be built from scratch? If so, how long will it take and what is the cost to your business of this delay?

The total of all these variables enables you as the customer to better assess the **total lifetime cost of operation** (TCO) of the system. If you can objectively assess and quantify your options and find a system and a supplier that you believe meets the functional requirements of your company, then you are closer to being able to make a well-informed and more predictable choice.

Contact RamBase today and have a no-obligation conversation about how we can solve your system challenges.

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