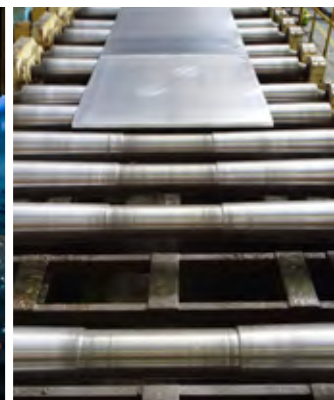


# The Hidden Expenses Often Found in Low Cost ERP Systems



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In today's world of business, the word free doesn't really mean free. It's a tempting word - free - but it raises hairs on the backs of people's necks. Nothing is ever free. You know the company with the low cost offer has to make money to stay in business ... so where are they making it? You find yourself looking for the hidden costs, the catch that will make you pay in the end.

Sometimes the catch is obvious. Shipping and handling costs are three times what they should be. Missed payments and overlooked cancellation dates are subject to exorbitant fees. But uncovering the catch it is not always simple. Sometimes in complex products or services that affect all aspects of your business, the costs are often unforeseen.

Take manufacturing enterprise resource planning (ERP) software as an example. When it is time to invest in a new ERP system, a low entry software price could be concealing an expensive total cost of ownership price tag. Price should not be the final deciding factor with ERP software. Rather, best fit for your company should be the number one consideration. The overall business objective of a new ERP system is the integration of information company-wide for long-term business viability, not some quick savings. After all, you get what you pay for.

Low cost sales today are more like what an economist would call a cross-subsidy: Overcharging for some products so that other products can be undercosted. The low cost product is simply a supplier hook and just the tip of the iceberg when it comes to overall expenses. Knowing all the potential costs of manufacturing ERP software ahead of time will allow you to ask the right questions and avoid the common pitfalls associated with deeply discounted ERP software.

Continue reading for the seven most common areas of disguised ERP expenses so you can choose the ERP system that provides value rather than cost.



### **Hidden Cost No. 1: Implementation**

The implementation of complex ERP systems is fraught with the potential for cost overruns. In fact, the industry average for implementation costs is well over 100 percent of the going cost of the software.\* You hear horror stories (complete with costly lawsuits) of companies that racked up five times the expected implementation costs, exceeded more than \$1 million in total implementation expenses and were not fully implemented after two years.†

The unfortunate reality is that implementations usually go over time and over budget. To avoid being stuck with a huge bill at the finish, set clear expectations, check references from current customers using the exact software version you plan to implement and, most importantly, find out if the implementation team is in-house or contracted. Contracted, third-party implementation teams may be more expensive than a professional services group that is trained and employed by the ERP software provider because they make the bulk of their money on visits to your facility. The more trips you require, the more money it costs to implement. You can greatly decrease these additional costs with careful planning, an enterprise-wide commitment to the project and continual forward momentum.

### **Hidden Cost No. 2: Training**

Along with implementation costs accompanies the difficult-to-quantify cost of training. Is the software intuitive to use? Are there consistent user interfaces between modules? Is the system a hodgepodge of different vendors, each requiring the user to learn a new way of performing essential tasks when they move from EDI to quality to warehouse management? If the vendor offers free training, is the training enough to adequately get your users up to speed, or will there be more costs for supplemental usage? Be sure to inquire in advance to avoid these labor and time expenses from adding up quickly across the breadth of your enterprise.

### **Hidden Cost No. 3: Development for Customization**

When customers chose price over function, they often settle for a rigid system with little flexibility or industry specificity. A basic, “off the shelf” system or one that lacks necessary functionality means you will have to spend a pretty penny on customization.

Development fees to tailor the system to your business processes and specific industry can often double or triple your overall costs. A low cost, generic ERP purchase can also mean a lot of customization to extend the reach of your system beyond the bare basics, subsequently increasing your implementation time. What if the system is not customizable or the provider is not inclined to do customization? Is your company willing to settle for time-consuming and less efficient workarounds? The old adage, “buy well, buy once,” rings especially true here.





**Hidden  
Cost No. 4:  
Process Redesign**

Change management is often listed as the biggest obstacle in an ERP installation and usually the most hidden of all the unforeseen costs. To change processes, ideas, work patterns, etc to fit a system that doesn't fit your business can not only be costly, but insurmountable to overcome. If a company decides to forgo paying for customization to integrate a generic, low cost ERP system into its business, then what are the costs of time and errors required to re-work the company's internal processes to fit the ERP software? If choosing the low cost option, be sure to factor in the cost of lost productivity for workarounds and process redesigns.

**Hidden Cost No. 5: Maintenance**

Once an ERP system is purchased or licensed, ERP providers typically charge an annual maintenance fee. Traditionally, maintenance costs are priced as a percentage of the total software purchase and the recent year industry average is around 22 percent.‡ Questions to ask when investigating maintenance fees are:

*What is the percentage amount based on? Maintenance fees should not fluctuate at the software at the time of original purchase, some ERP providers instead base the percentage on the current year's open rate of the software, generally increasing your maintenance fees every year. What do my maintenance fees get me? Paying your maintenance fees should not make you feel like an ATM: Always shelling out money but never getting anything in return. At a minimum, your maintenance fees should include technical support and yearly upgrades (not just bug fixes, but valuable software improvements). An excellent ERP provider will also offer access to its development team for suggestions, self-help tutorials and videos, technical documentation, user support groups and more.*

**Hidden Cost No. 6: Upgrades**

Software upgrades should not be elusive. Upgrades should be included in your annual maintenance fees, but unfortunately, some ERP companies may charge you to stay current with technology. Once you do upgrade (free or paid), will more customization be necessary to make the upgrade work with your business? How much will that cost?

What about frequency and usefulness of the updates? Be sure to inquire from references about the quality of the upgrades. Are you simply provided with bug fixes or does the ERP company give you state-of-the-art technology to keep you competitive? A good ERP provider is not afraid of constructive feedback from its customers. Are you offered input on the development? Is there a community that encourages customer collaboration in product advancement?

The key is to find a manufacturing ERP provider with a reasonable maintenance rate where the updates are frequent, useful and relevant to your business needs. Also, be sure to inquire into an ERP providers customer retention rate.\*\* Happy customers stay loyal.

### Hidden Cost No. 7: Support

Your annual maintenance fees should include live technical support. But in order to offset the costs of discounting the software at the initial sale, some ERP providers find it necessary to charge for support. Do your research and investigate whether support is included or whether there is a charge every time you call in. Be wary of tiered technical support options that allow only a certain number of calls as you will have to closely monitor your employee usage to avoid exceeding your support quota and incurring additional fees.

Also, investigate how easy it is to get support. What is the quality of their support (live phone, chat and email)? Is there a lot of finger pointing to other vendors when there is a problem or does the support team work hard to solve your individual business problem? Again, references are your best tool here to determine the quality of a company's support team.

At the end of the day, hidden ERP costs do not have to get the best of you. Find the company that puts it all on the table upfront and strives for no unknown expenses. When you choose the right fit, rather than the cheapest option, your business will see better results quicker: faster delivery time, increased revenue and decreased time spent troubleshooting. Do your homework to find value rather than cost. After all, there is no such thing as a free lunch.

### About IQMS

Since 1989, IQMS has been designing and developing ERP software for the repetitive, process and discrete manufacturing industries. Today, IQMS provides a comprehensive real-time MES and manufacturing ERP software solution to the automotive, medical, packing, consumer goods and other manufacturing markets. The innovative, single-database enterprise software solution, EnterpriseIQ, offers a scalable system designed to adeptly grow with the client and complete business functionality, including accounting, quality control, supply chain, CRM and eBusiness. With offices across North America, Europe and Asia, IQMS serves manufacturers around the world.

*If you would like to learn more about IQMS' comprehensive ERP solution, please visit [www.iqms.com](http://www.iqms.com).*

