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W O R K B O O K

# Steps for Selecting Business Software Solutions:A How-To Guide for Growing Companies

*Sponsored by SAP*

*February 2004*

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## Executive Summary

This workbook is designed to help firms that are in the process of investigating their need for more advanced business management and accounting software. Different companies will have a wide variety of potential software and system needs based on their size and industry. Determining exactly where a company stands in terms of needs and current technology will be necessary for deciding the exact approach it should take toward upgrading.

This document contains two types of information designed to make this process easier: interactive self-assessment tools and educational text based on IDC research covering the small and medium-sized business (SMB) and enterprise applications markets. The self-assessment portion contains a variety of questions that companies can use to determine needs and capabilities, including several checklists that companies can use to help determine the following:

- **Determining needs.** This involves talking to affected employees, looking at what competitors are doing, and otherwise gathering relevant information. Top management may not always know at first what their organizations' most pressing needs are.

- **Approaches to upgrading.** Many possibilities exist for selecting accounting and business management software. There are also few, if any, industry-standard application packages. Companies need to upgrade based on their own specific needs.

- **Steps toward an upgrade.** While company needs vary greatly, there are well-defined steps toward a successful upgrade that apply across the board. Organizations should determine these steps beforehand and follow them.

The educational text, contained in the Appendix, provides an outline of available capabilities, the current state of the market for business management software, and other such information, including:

- Why small businesses need more advanced business management software:
    - Leveraging advanced capabilities
    - Cost concerns — today and tomorrow
    - Accounting and business operations software in SMBs today
- Definitions:
    - Applications
    - Company size categories

# Determining Needs

Many small businesses might feel that they know what their business management needs are, even if they are not fully conversant in the software that is available to address them. Nevertheless, it is always a good idea to do a needs assessment that looks at internal processes, competitors, and industry trends.

## *Benefits and Goals*

There are three key steps to determining desired benefits and reasons to upgrade or change business operation systems/software:

1. **Define your specific benefits and goals.** Common goals for SMBs include the following. (Select those that match your desired benefits and list others specific to your industry):
   - ❑ Better integrating processes among different applications (improved efficiency!)
   - ❑ Improved sharing of information between applications and departments
   - ❑ Improved interaction with outside parties (e.g., customers, prospects, suppliers)
   - ❑ Managing cash flow effectively (survive!)
   - ❑ Other:

   ________________________________________________

   ________________________________________________

   ________________________________________________

2. **Assigning priorities.** Some of these needs will be more important than others. At some point, companies will need to make decisions about allocating spending and may need to forfeit certain capabilities altogether. Some capabilities may be instrumental in reaching a particular business and revenue goal, such as adding a new product line or serving a larger class of customer.

   One way to identify which factors you think are most important in technology investment is to simply rank the top 3 (1, 2, 3). A more-advanced self-assessment would involve moving beyond rank order to degree of importance. For example, using 6 as a hypothetical score for the most important, 2 for the second most, and 1 for the third most would show how much more important the first factor is than the second or third.

   With this in mind, take 20 total votes and allocate them according to importance, to the goals you have identified as though you were holding an election. Ten of the most common goals are listed below. Select those that match your goals, add others specific for your company, then allocate votes. Your most important priority should have the most votes, the second most important priority should have the second most votes, and so on. If saving money is more important than all other factors combined, then it should have at least 11 votes. This will help in allocating your budget. Don't spend money on lower priority items!

**Score**

________Saving money/lowering cost

________Improvement in operating efficiency

________Better customer service/management

________Reduced downtime for staff/equipment

________Lower inventory costs

________Expanding geographically

________Freeing up staff time/lowering headcount

________Reducing order-processing time/expense

________Improved lead generation/handling

________Improved efficiency through better visibility/communication across the organization

________Other:

______________________________________________________________________

______________________________________________________________________

___20___Total

3. **Timeframe for implementation.** Improving accounting and business operations software is a forward-looking activity. For small companies that plan on staying the same — not growing or gaining new customers — these changes mean little. Instead, these upgrades are based on what you want your company to be in the future. For instance, certain features may be uncommon now but will be necessary two years from now. Conversely, some upgrades may not be affordable now but will be if the company reaches certain revenue goals.

   For most companies the timetable for implementing new business software solutions falls into three categories. Which description best characterizes your organization?

   - ❑ **Immediate action required.** Are critical failures imminent? Are you receiving more than one complaint a week from customers about your processes or have you received a complaint from a really big customer in the past three months? Is your staff significantly stressed by what seems like a relatively modest growth in business? If so, you need to move forward immediately.
   - ❑ **Prudent pacing appropriate.** Do you still have processes that are working, but not as well as you would like? Are you missing out on business opportunities because of slow response time? Are people not as effective as they could be? If so, it is time to begin the assessment process to make certain your resources have not fallen behind where they should be.

- **Watchful waiting.** Are processes and procedures adequate for current business levels, but potentially a problem if things change? Are staffers a bit complacent in their mastery of current technology? Are new hires surprised at the lack of capabilities in some areas? If so, try to identify the one performance area that seems most in need of assistance and see if a product upgrade can make a difference. Even when not making immediate upgrades, it is important to have a technology road map looking a year or so out into the future.

## *Integration Needs*

Integration is a pressing need as companies grow. The goal of integration is not just to provide for interoperability between applications, but also to allow visibility into the IT infrastructure across the organization. Integration is also important in terms of saving money, improving productivity, and maintaining consistency across information in various applications.

Customers can choose between merging existing systems and buying an already integrated system. Smaller companies often do the former to save money initially but end up wishing they had done the latter once all the work involved becomes apparent. Merging existing systems allows companies to maintain applications with which users are comfortable. However, this approach will turn into a sinkhole of IT expenses as the company tries to maintain interfaces between existing applications.

Needless to say, balancing the cost and benefits of different approaches can be difficult. As much as possible, companies should try to assess the total cost of ownership (TCO) of each of these approaches (including initial cost, ongoing cost, training, time/business lost getting up to speed, etc.). Don't assume that buying from your current supplier will reduce the time needed to learn a new solution — some product lines can have dramatically different user interfaces, even from the same company (an artifact of the industry tradition of acquiring firms to add new capabilities.)

Many SMBs feel they lack the resources (time and money) to implement comprehensive business management solutions that integrate a number of key processes. It is more common to implement new technology in manageable chunks to avoid disrupting everyday business operations. In a full-scale upgrade, system users must be trained on the new application. Data has to be migrated from current systems into the new system, and in general, the short-term challenges can seem overwhelming. However, a growing number of firms are starting to realize the long-term benefits of integrated business management systems — such as lower TCO — mainly because these systems require less hardware and staff to support.

One comfort associated with the rapidly changing world of business software solutions is that basic business activity still can be divided into relatively familiar categories. In keeping with this view, it is useful to inventory existing processes. Which of these functions do you need to manage with your business operations systems?

- Payroll
- Services (e.g., keeping track of billable hours)
- Inventory
- Procurement
- Project management
- Business performance management

- ❑ Contract management
- ❑ Logistics
- ❑ Forecasting
- ❑ Reporting
- ❑ Sales force automation
- ❑ Customer relationship management
- ❑ ______________________________
- ❑ ______________________________
- ❑ ______________________________
- ❑ ______________________________

Next, companies must inventory existing applications. Commonly used applications may need to be integrated with accounting and business operations software and with each other in order to share important information and meet business goals. Which of these applications do you currently use or plan to implement?

- ❑ Enterprise resource planning (ERP)
- ❑ Customer relationship management (CRM)
- ❑ Sales force automation (SFA)
- ❑ Materials requirement planning (MRP)
- ❑ Supply chain automation (SCA)
- ❑ Human resources (HR)
- ❑ Automated financial management (AFM)
- ❑ ______________________________
- ❑ ______________________________
- ❑ ______________________________
- ❑ ______________________________

## *New Capabilities*

Which of the following new capabilities do you need to meet your goals?

- ❑ Analytic tools
- ❑ Platform independence
- ❑ Web access/remote access
- ❑ ______________________________
- ❑ ______________________________
- ❑ ______________________________
- ❑ ______________________________

As noted above, the ability to add new features is a key driver for SMBs investigating new accounting and business operations software. Typical firms consider a number of capabilities to be important. The two questions to ask regarding each capability under consideration are:

- Do we agree that this is an important capability?
- If we don't agree, are we missing something? Do we really understand what the benefit is and what the implications are to our company?

## Analytic Tools

A variety of tools can be instrumental in the growth of SMBs. One of the most common examples is business intelligence, which refers to the broad set of tools that allow companies to gather information from their business processes and then analyze this information to come up with actionable business improvement. Other important analytical tools provide internal performance measurement and include customer profitability analysis, which allows companies to determine how much they are making from each client versus what they are spending to maintain the relationship; lead tracking, which helps catalog and prioritize leads; and sales pipeline analysis, which helps companies achieve greater efficiency and each level of the sales process.

## Platform Independence

Many small companies have found that they are stuck on a technology migration path to nowhere, with choices severely limited by both earlier technology choices and a desire to maintain overall simplicity. By pursuing more advanced and flexible types of integration, these firms can be freer to plug in the right software — without worrying about hardware or software compatibility — rather than settling for something that works with what they already have.

## Web Access/Remote Access

As companies grow, they may also spread out geographically. Rather than everyone's being in the same room, employees may be at locations in different states or even in different countries. Wide area networks (WANs) can be a solution for larger firms, but their cost and complexity mean that Web-based solutions may be more appropriate for many organizations.

Web-based solutions demand that companies move from solutions that are Web enabled to ones that are Web centric. This can be the scariest chasm of all for small businesses to cross, because of the perceived loss of control of critical data. Rather than merely allowing the sending of important financial or business-critical information online — a process that can quickly result in severe versioning problems and other issues — Web-centric applications assume that certain information will need to be shared. Such processes can even be automated, with specific reporting functionalities. Some smaller firms are even investigating such features as Web services and enterprise portals, both of which allow employees to log in and work from anywhere with an Internet connection.

One emerging feature is online access to accounting and business operations software for remote staff and, at least sometimes, for outside accountants and contract staff. SMBs tend to be reluctant to make sensitive financial information available online. However, if security can be strictly maintained, the online sharing of this information can provide a boon in efficiency. An incremental approach, here, can be best for staff as well as reluctant management. Providing online information to the sales force about contract status and inventory can make an important difference in serving customers on a real-time basis during a sales call. Two or three success stories in this area can reduce “Internet worries” significantly.

## Farewell to Green Screen Terminals

As companies seek to boost productivity and improve operational efficiency, green screen terminals are beginning to be replaced by Web-based systems that are more flexible and user friendly. In this way, companies will be able to achieve significant benefits because of the elimination of manual data entry and an inflexible workflow as well as an unattractive user interface. That, in turn, will result in improved data accuracy, better business process monitoring, and more-intuitive information aggregation and dissemination. Information at your fingertips can finally be achievable.

As prices of PC servers and workstations continue to fall, green screen terminals, which are typically linked to mainframe systems at medium-sized companies, have become expensive to maintain and even more expensive when system management issues like downtime, manual coding, and batch processing schedules are taken into consideration. While many SMBs may still hold on dearly to their terminal-based systems because of their reluctance to change, it’s just a matter of time before the benefits of Web-based solutions start to manifest themselves in the forms of better information output, a more productive workforce, and a competitive enterprise that can swiftly respond to market changes.

# Approaches to Upgrading — Know Thyself!

For many SMBs, the idea of undertaking technology upgrades can be daunting. There is a tendency for companies to be intimidated by technology or to feel that they do not have enough information to make informed decisions. However, if companies follow a well-defined upgrade workflow process, the assessment, decision-making, and upgrade process becomes much more manageable.

The first step is to assess needs. It is easy to pass over this step, since there may already be agreement that technology change is necessary, but a formal assessment is always better to ensure that nothing is missed. Based on the company's needs as well as organizational and competitive factors, different approaches will be appropriate, from making no changes to applying new comprehensive solutions.

Then comes the task of reviewing software and vendors. Identifying a winner can be so challenging that it is tempting to move forward with acquisition once the optimal candidate has been found. But in fact, an additional review of company needs is critical to ensure that internal and external circumstances have not changed. Only after that final reality check should the acquisition process move forward.

When facing these needs and goals, companies have three choices:

- Do nothing
- Move forward incrementally, by adding specific new applications and capabilities
- Move forward dramatically by implementing new, comprehensive solutions

There are cases in which it would be advisable to do nothing. However, this is not a cost-free alternative. Maintenance costs inevitably rise over time and the risk of being unable to migrate data effectively to new systems increases with every new product generation that passes by. And of course, competitors may be upgrading their own capabilities, while customers and suppliers continue to refine business practices and technology. There are a wide variety of viable alternatives in terms of how to upgrade accounting and business software. Before embarking on this process, companies should answer five key questions:

1. **What are the perceived benefits associated with new business solutions?** Build a list of all the capabilities available through new solutions — and don't hold back. Include everything you can think of: reducing time to process customer orders, alerting sales staff to new leads within 24 hours of receipt, and so on. How necessary is each capability? When possible, a cost/benefit analysis should be performed for each feature (although a rough ballpark estimate of benefit value is fine). Get as specific as you can and also think through the "so what?" — exactly why is the benefit important?

   - ❑ Critical 4
   - ❑ Important 3
   - ❑ Nice to have 2
   - ❑ Not necessary 1

2. **What is your organization's pain tolerance?** This is the corollary of the benefit question above. There are many policies or procedures that may not be ideal, but are they really killing your business? Some tasks may seem to be obvious candidates for upgrades until you look at what the inefficiencies really cost you compared with the cost in money and time for fixing them. Not all change may be worth the inconvenience. How flexible is your organization? Do you fare well in adversity (e.g., a blackout or snowstorm) or do staff and procedures fall apart during a crisis? This is a useful surrogate for how life will be as new solutions are implemented!

   - ❑ Major impediment 4
   - ❑ Minor impediment 3
   - ❑ Inconvenience 2
   - ❑ Not a problem 1

3. **What is the level of competitive challenge?** Is a new potential capability becoming an industry standard? Is it something your competitors offer and your customers expect? If not, it may not be as pressing as you think.

   - ❑ Industry standard 4
   - ❑ In use by 50% of competitors 3
   - ❑ In use by 25% of competitors 2
   - ❑ Not a capability customers need 1

4. **How willing are you to change policies and procedures?** Inertia can be an even more powerful force than budget in terms of slowing or derailing technology upgrades. Because employee resistance can be a powerful force inhibiting upgrades, companies need to look at how affected employees actually work. This assessment should also factor in training and ramp-up time. Also watch out for "legacy business practices"; procedures put into place by long-departed employees that may have outlived their usefulness. Are you willing and able to review your procedures regularly to see if the goals for which they were designed are still important?

   - ❑ Completely willing 4
   - ❑ Somewhat willing 3
   - ❑ Somewhat resistant 2
   - ❑ Completely resistant 1

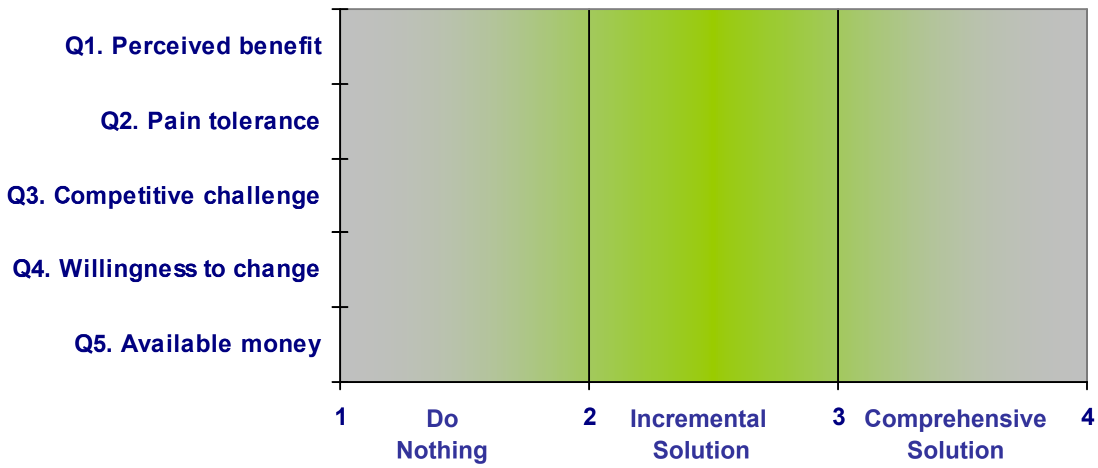
5. **How much money is available?** IT upgrades offer the classic "spend money to make money" tradeoff, but small businesses will generally run up against very specific spending limits. A partial upgrade that doesn't deliver needed capabilities is worse than no upgrade at all. When doing an incremental upgrade, the budget can be spread out over multiple quarters.

   - ❑ Under $5,000 4
   - ❑ $5,000–9,999 3
   - ❑ $10,000–49,999 2
   - ❑ $50,000+ 1

Enter the score from each question above on the matrix below. Connect the dots to see your organization preference for a technology acquisition.

**Figure 1**

Acquisition Strategy Preference Matrix




Source IDC, 2004

# Steps Toward an Upgrade

There are numerous steps to be taken toward an accounting or business operations software upgrade. The following steps should be taken, regardless of a company's specific business or needs:

## *1. Determining Requirements*

This involves determining needs and everything implied by this term — what are the fundamental "must haves"? — and then measuring them against the available capabilities. Such an assessment must take into account actual business needs and deficiencies in the current system that are causing problems. These should also be balanced against outside forces, such as requirements for growing or entering new markets, or the needs to comply with new regulations around privacy and data storage:

- Identify the people in your organization who can determine requirements
  - ❑ IT
  - ❑ Accounting
  - ❑ Senior management
  - ❑ Line of business managers
  - ❑ Other
- Identify deficiencies in the current system that are causing problems, such as:
  - ❑ Timeliness of reports
  - ❑ Availability and access to required information
  - ❑ Accuracy of sales financial information
  - ❑ Availability of sales pipeline analysis
  - ❑ Inefficiency in customer service processes
  - ❑ Other
- Areas that could improved
  - ❑ ________
  - ❑ ________
  - ❑ ________
  - ❑ ________
- Identify your organization's requirements for growing or entering new markets
  - ❑ ________
  - ❑ ________
  - ❑ ________
  - ❑ ________

- Identify your organization's needs for complying with new regulations around privacy, data storage, and so on
  - ❑ Healthcare Information Portability and Accountability Act (HIPAA)
  - ❑ Gramm-Leach-Bliley Act
  - ❑ Sarbanes-Oxley Act
  - ❑ Basel II
  - ❑ California's SB 1386
  - ❑ ____________________
  - ❑ ____________________
  - ❑ ____________________
  - ❑ ____________________

## *2. Choosing a Path*

Take a look at your score in the Approaches to Upgrading assessment and the result of plotting the scores on the Acquisition Strategy Preference Matrix to determine the best approach for your organization: do nothing, incremental solution, or comprehensive solution. Companies must assign a score to each of their requirements, indicating not only importance, but also how each would best be addressed. Assuming that most companies will upgrade, they need to determine if they will best meet their goals and address their business needs by merging existing solutions or implementing full upgrades.

## *3. Evaluating Software*

For the most part, companies will be evaluating software based on functionality: Does the application have the capabilities that the company needs? This is where the rubber meets the road. While it is important to find solutions that will help the company moving forward, the top concern is finding software that addresses current needs.

As noted above, integration will be an important factor, especially for companies undertaking an incremental migration. In fact, the ability to integrate with existing software often assists in the decision whether to embark upon a partial or full upgrade.

Finally, flexibility and ease-of-use issues are important. How easy is the system to install and maintain? How easy is it for employees to learn and use? Software that involves high maintenance and training costs could end up being more expensive over time than more-intuitive software that carries a higher acquisition price. But that's the typical software tradeoff: more features and capabilities equal more complexity. Even if they involve employee training, more-powerful solutions should pay off in the long run.

Companies should make sure that the software meets their need in all of these areas:

- ❑ Functionality to meet predetermined business processes, or vertical market needs
- ❑ Flexibility in terms of meeting needs such as adding users upon hiring, adding new products, and so on
- ❑ Integration with existing processes and applications
- ❑ Ease of installation, such as the initial installation on the network, installation on the desktop, upgrades, adding new users, and so on

- ❑ Ease of use, such as user interface for both the administrator as well as the organization's end users
- ❑ Ease of maintenance and whether it can be accomplished in-house or will require a service provider

## *4. Evaluating Software Vendors, Dealers, and Resellers*

### Basic Business Strengths

Even after a company has evaluated the software, the process is not over. A company may find a number of software packages that fit its needs. In this case, the vendor backing up the software may be the deciding factor. As companies grow, they not only buy more-complex software, they also tend to have more complex and longer-lasting relationships with technology vendors. Also key to this relationship is the dealer or reseller that may be involved in the sales and implementation process. Comfort with both software creator and seller is critical. (Since the software supplier and channel partner are inextricably linked, the assessment of each can usually be done simultaneously.)

Important factors to keep in mind include overall expertise in the field of accounting and business operations software. It is also important to look at a vendor's stability, profitability, and reputation. Companies should look for vendors that can continue to cater to their needs over time, keeping up with the latest industry trends via upgrades. Furthermore, since growth is a central focus, companies should choose vendors that offer software that will still fit their needs when they double or triple in size.

Before entering into a relationship with a software source (vendor and/or dealer), there are a number of areas that can be reviewed. While a full-scale analysis is beyond the time and patience of most potential buyers, asking about these areas (and also checking with colleagues at other firms) can provide useful intelligence. These areas include:

- ❑ Expertise (reputation, third-party assessments, and past experience)
- ❑ Commitment to research and development (R&D) (check annual reports for percentage of sales devoted to research)
- ❑ Time in business/stability, although past survival is no indicator of future performance
- ❑ Size of company ($250 million in annual revenue indicates good critical mass)
- ❑ Profitability
- ❑ Reputation (people, experience, and technology)
- ❑ Product costs:
  - ❑ Software costs __________
  - ❑ License costs __________
  - ❑ Customization costs __________
  - ❑ Implementation costs __________
  - ❑ Maintenance costs __________
  - ❑ Upgrade costs __________

## Supplier Support Services

Support services generally come from the software vendor itself. Although, they may also come from third-party dealers, channel partners, or integrators. Support services are useful at every stage of product use:

- **Installation.** Installing new software yourself may involve downtime for important staff. Getting the software up and running quickly is important to avoid lost opportunity costs, minimize downtime, and realize the benefits of technology upgrades and replacements as soon as possible. Installation support services include:
  - ❑ Hardware installation support
  - ❑ Software installation support
- **Transition preparation.** Service providers can help companies make sure they don't cause unnecessary downtime during installation. A key question to consider is the extent to which a new solution will be run in parallel with the old one. While the cost of such parallel processing may seem unnecessary, the ability to identify potential problems while maintaining regular operations is a worthwhile investment.
- **Maintenance.** Accounting software is mission critical in most companies. Being able to fix problems quickly is a high priority. Maintenance support services include:
  - ❑ Service agreements for upgrades and code corrections (software patches)
- **Training.** New software may require staff to learn new procedures and skills. Getting such staff up to speed quickly, and providing reference materials, will make them both more effective and more accepting of the new software. Although many will do just fine reading manuals and moving forward, class instruction provides an uninterrupted focus on learning that accelerates understanding and also provides a group environment that lets those in the class know who might be appropriate resources to which to turn if questions arise.
  - ❑ Instructor-led classes
  - ❑ Online training, instructor led or self paced
  - ❑ CD ROM
  - ❑ Job aid materials

## Cost

As with most mission-critical applications, the cost of software consists of far more than the initial license fees. It is more useful to determine the operational cost of the software over a certain period of time. These costs will include the cost of support services and implementation costs. TCO can be difficult to calculate, but in cases in which two solutions seem equally effective, this can be the most effective way to identify the best solution.

Costs of acquisition and use must then be measured against capabilities. There are numerous price points for software. Choosing the cheapest overall software has often been the problem, not the solution, for small companies. Instead, they must find cost-effective software that offers the capabilities they need.

Table 1 provides a template for considering and comparing the costs associated with TCO.

**TABLE 1**

Comparison of Total Cost of Ownership Worksheet ($)

| | Solution 1 Cost | Solution 2 Cost | Solution 3 Cost | Current Cost |
|---|---|---|---|---|
| Initial purchase price | | | | |
| Software | | | | |
| Integration | | | | |
| Installation | | | | |
| Operational costs (TCO over time) | | | | |
| Annual license fees | | | | |
| Related personnel costs | | | | |
| Pain of staying with current solution | | | | |
| Churn, staff turnover, dissatisfaction | | | | |
| Lost opportunity costs | | | | |

Source: IDC, 2004

## *5. Selecting a Vendor*

Evaluating a vendor for an ongoing relationship may be an unfamiliar process for many small companies. This is one reason that the following checklist is important.

1. **Narrow the field.** Doing due diligence on a vendor costs time and money. Organizations should limit their investigations to those that meet their critical requirements. This may need to be an iterative process, similar to screening out job applicants. Too severe a screening and there may be no candidates left. Not sufficiently rigorous a screening may mean too many candidates to evaluate. List the vendors you have evaluated and are considering:

   ❑ ____________________
   
   ❑ ____________________
   
   ❑ ____________________
   
   ❑ ____________________
   
   ❑ ____________________

2. **Perform a detailed evaluation.** This should encompass software capabilities, costs, services, company reputation, and other factors. This will help the organization establish priorities that should make it clear which vendor or vendors offers the best alternative.

3. **Gather information from similar businesses.** Whenever possible, it is a good idea to try to learn from other companies of similar size, in the same industry, that have deployed similar software or computing platforms. A little investigation can help companies avoid repeating others' mistakes. It can also help eliminate vendors that have flaws that are not immediately obvious, such as poor attention to ongoing maintenance.

4. **Make a decision.** Top management should consult with affected parties, especially accounting, marketing, sales, and IT. Ideally, this will lead to consensus. In case it does not, companies should have a voting system or other process in place to break deadlocks.

5. **Negotiate a sound contract.** This may be another unfamiliar task for many companies. It is one area that companies should emphasize when looking at what other companies have done. With so many potential hidden costs, companies should seek contracts that will allow them to get the ongoing support they need without breaking the bank.

6. **Install the system.** Plan the installation to coincide with a time at which your business can tolerate the work to implement an upgrade or replacement. Understand implications of an installation or upgrade and plan for the best time for the business. Implementation can be a disruptive process and probably should not happen during the height of the sales season or the end of the fiscal year.

# APPENDIX

## Why Small Businesses Need More Advanced Business Management Software

SMBs have access to a wider array of business resources than ever before. From local area networks (LANs) to the Internet and advanced communications, even the smallest of firms can operate with the efficiency and effectiveness of major corporations, both internally and from the perspective of customers and suppliers.

This document is aimed at a wide range of firms. However, it is important to note that the needs of different companies will vary greatly by size. While very small firms — those under 20 employees — generally have less-demanding needs, they often have farther to go in terms of meeting these needs. Many such firms are using consumer-level accounting packages or even still keeping records by hand. In contrast, large firms, those with 1,000 or more employees, have full-time accounting staffs and comprehensive systems in place. Those in between are in a kind of adolescence, an "awkward age," lacking the resources of larger firms, but needing more information and access to resources than the smallest firms.

### *Leveraging Advanced Capabilities*

Advanced capabilities are a goal for a wide variety of companies. Some companies may be planning expansion toward global presence while other companies may be considering advanced capabilities to meet their needs to keep pace with competitors and better interact with customers and partners.

Companies are looking for software that will help them reduce costs, increase revenue, keep pace with competitors, and make better use of employee time. At the same time, and every bit as important, firms are looking for accounting and business operations applications that can integrate compatibly with other processes. Ease of use may be a euphemism for doing things the same old way but there is merit to not changing business practices unless there is sound reason for doing so.

The twin goals of internal efficiency and effective customer management relate to the challenge of surviving in a down economy and also speak to the growing technology sophistication of smaller firms. Greater use of PCs, LANs, and the Internet means that most small businesses, and nearly all medium-sized businesses, are in a better position to benefit from advanced technology solutions. Of course the appeal of new technology in theory is counter balanced by worries about the practical realities of putting new solutions in place. SMBs are also often more likely to be in a position to implement new technology than are their larger counterparts, which have often scaled back their technology investments in recent years.

### *Cost Concerns — Today and Tomorrow*

The continuing need for greater functionality is bumping up against the universal desire to avoid spending a penny more than absolutely necessary. Return on investment (ROI) arguments are compelling for most small business owners but there is still a reluctance to retool business practices and make major changes. The paradox in the behavior of smaller entrepreneurs is that, while many are bold and innovative in a number of ways, they can be very risk averse when it comes to spending money on IT.

What small businesses need to realize is that technology investments are just that: investments. They cost money in the short term but, ideally, help make more money in the long term. While smart technology investments can lead to greater efficiency, for small businesses this is usually expressed as growth and higher revenue, rather than drastically falling IT costs. It is also important to remember that, in some cases, doing nothing at all could cost more in the long term, if it causes the company to lose business or spend money on hasty upgrades at a later date. Such costs can be hard to calculate, consisting of increased maintenance spending and lost opportunities to gain a competitive advantage.

Unlike the largest firms, which can deploy comprehensive solutions that take a year to implement on a custom basis, most companies must find software that addresses their specific needs but requires only modest fine-tuning. Beyond the accounting basics, firms are increasingly looking for integrated solutions that provide greater functionality than the standalone products that they have traditionally been using. Such integrated solutions can better address common pain points such as:

- **Inefficient business and IT processes.** These are critical to address as a company grows.

- **Keeping pace with customers, suppliers, and competitors.** Small companies will find that the needs of all three of these groups will change — and become more demanding — as the company grows. Larger size means new competition.

- **Erroneous, duplicate, and mismatched data in existing applications.** This is a problem that many businesses are not even aware that they have.

Not surprisingly, a growing number of companies are now seeking greater feature sets and improved integration with other applications. Achieving these goals demands a comprehensive plan, not the piecemeal approach to IT that some small companies have tended to use. Organizations must now assess their current capabilities and needs to choose applications that help them achieve a variety of different goals such as:

- Expanding market share

- Reducing product development cycle times

- Increasing visibility into business processes, allowing improved decision making, productivity, and financial performance

- Enhancing relationships with customers, prospects, partners, and suppliers

- Increasing geographical reach

- Reducing the cost of doing business (or at least slowing its growth)

Of course, multiple goals are not at all rare in motivating an investment in new technology. IDC found that 61.7% of small businesses agreed strongly or somewhat with the statement, “We invest in new technology to expand into new areas, reach new customers, and increase sales — growing revenue is key.” A different goal was even more appealing; 65.5% for small firms surveyed agreed strongly or somewhat with the statement, “We invest in new technology to be more efficient, manage our business more effectively — managing costs is key.”

## *Accounting and Business Operations Software in SMBs*

Over past two years, smaller firms have been spending a growing share of their budgets on advanced software. Hardware, which may have accounted for over 70% of IT spending, is still important, of course, but drops below 60% in firms that have added LANs. This means that, once the investment in a network server and related equipment is made, technology spending begins to alter, with greater emphasis on applications. Companies should track their spending carefully to ensure that the natural desire to “take a break” from technology spending does not adversely affect the value extracted from those investments. Make certain that you are getting the maximum return on your network investments by prudent software investment.

One of the chief goals of upgrading software is to keep pace with the competition. Therefore, a natural starting point in evaluating a possible upgrade of capabilities is to compare where your company is in terms of technology adoption and capabilities with companies of similar size and type. This may be hard to do, given that competitors are unlikely to share such information with each other. Furthermore, such a comparison is merely a starting point. It is certainly OK for you to be behind other firms in technology adoption if there is a reason — unique customer requirements or geographic considerations, for example.

The key is to understand the implications of your current technology position. The accounting and business management software used by many smaller companies has been around for 10 years or more. It is often outdated, prone to failure, or expensive to maintain.

Many SMBs have been using accounting software that leaves them trailing behind their larger competitors in efficiency and accuracy. A common problem that comes with using inadequate software is a lack of visibility between accounting and sales systems. This can lead to delays and inconsistencies between different departments. When a company consists of only a few people, these problems may be straightened out quickly, often with a conversation across the room. As a company grows, however, these discrepancies can cause huge problems, from inaccurate financial records to not having the product to meet customer demands.

There are two possible reasons that small companies are not having their business management needs met: underutilization or inadequate software. Some companies actually already have software installed that meets their needs but have not utilized important features because of a lack of training or technical expertise. This is one reason that an assessment of current capabilities is important. Some companies may not actually need upgrades.

A larger group of companies, however, will find that their current software is not up to their needs. In many cases, companies have software that was adequate when they were smaller, but that they did not upgrade as they grew because of inertia or other factors. In other cases, the software may be out of date, incapable of meeting the real needs of even the smallest companies.

There are four key areas in which software may fall short. Companies should take a look at their current software and see if it suffers from any of these problems:

- **Lack of needed capabilities.** This may be a function of company growth. As companies grow, they must keep track of more information and complete more complex tasks. Furthermore, their competitors may be adding more advanced capabilities.

- **Scalability.** In other cases, the software may have the needed capabilities but be incapable of supporting an adequate number of users. It may also be unable to support users spread across multiple offices or in other countries.

- **Ease of use.** Some software — particularly older software — can be so hard to use that it may be worth replacing, even if it otherwise addresses needed capabilities and scalability. More-advanced software often provides out-of-the-box, menu-driven functionality that makes it easier to install. Up-to-date software may also offer simplicity that makes it easier for employees to learn and use. These factors should be included in the cost-to-benefit analysis.

- **Integration.** Older software packages are often unable to interact with other software and databases. This can increase the amount of labor required to use them, including data entry, and also lead to a larger number of mistakes and data incompatibilities.

SMBs spent $24 billion on software in 2003. This spending is growing at about 6% per year, making it a relatively healthy market. However, the SMB software market can be somewhat of a moving target. Instead of convincing companies to upgrade on distinct types of software, vendors are trying to convince many small companies to embrace business management software for the first time, using it to replace more piecemeal, consumer-level approaches to bookkeeping and other activities.

The following figures help create a snapshot of where small businesses are in terms of their use of accounting software:

- **80% of PC-owning small businesses own accounting software.** This ranges from 74% of businesses with under five people to 89% of firms with between 50 and 99 people.

- **38% of small businesses have payroll software.** Again, larger firms are more likely to have it, with 28% for firms of 1–4 people and 65% for firms of 50–99 people.

- **85% of PC-owning medium-sized businesses own accounting software.**

## *Huge Potential Benefits in CRM for SMBs*

Accounting software is widely adopted and in use in most companies, unlike 10 years ago, when many firms were using spreadsheets to manage their finances. The equivalent today is CRM, which is not widely used, compared with accounting systems, which are often relied on for CRM purposes.

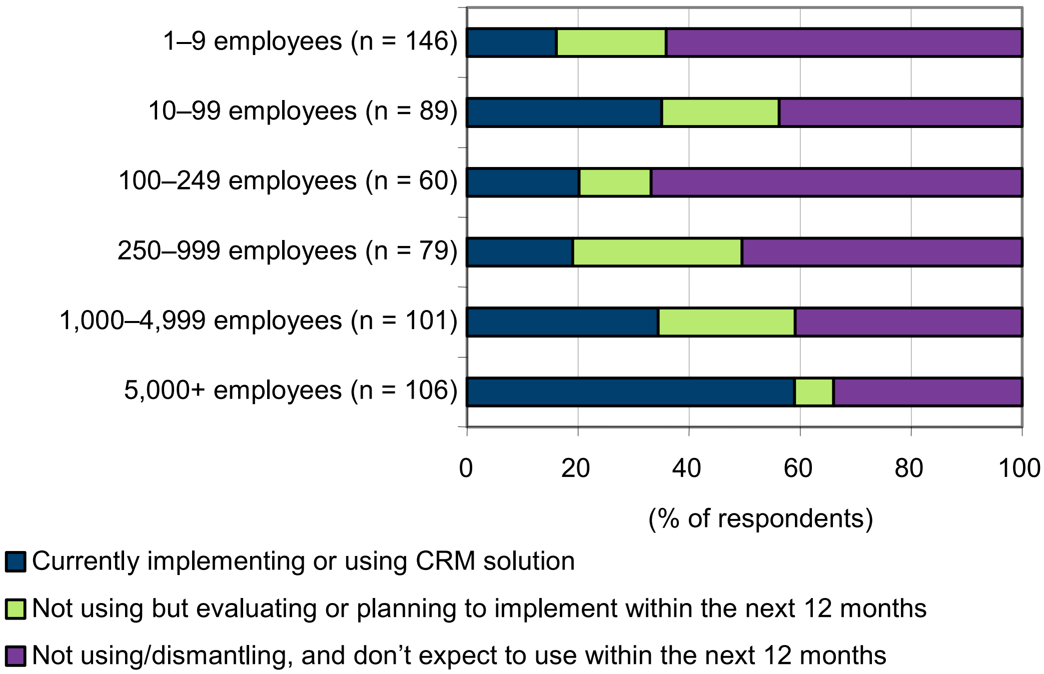
For years, large companies have utilized CRM applications to improve their sales effectives. These applications have increased the return on marketing dollars by more effectively identifying the best customers. Additionally, sales people can access the information they need such as inventory and lead time, which in turn results in increased sales.

One of the goals of the current wave of business management and accounting software is to bring the advantages of CRM to smaller companies. According to a December 2002 IDC survey, smaller companies lagged significantly behind larger ones in terms of adoption of CRM solutions, as shown in Figure 2.

## Figure 2

North American Organizations' CRM Solution Adoption Status by Company Size

*Q. Please indicate which ONE of the following statements most accurately describes your organization's status regarding a CRM/front-office solution (e.g., sales automation, marketing automation, customer support including call center applications, but excluding e-commerce).*




Note: n values are unweighted.

Source: IDC's *Enterprise Technology Trends Survey, 2002*

However, IDC believes that smaller companies will be leaders in adopting the next round of CRM solution. In fact, CRM may pay off even bigger for small, agile companies than for larger companies. For instance, a recent IDC study found that smaller companies received a 460% return on investment (ROI) from their CRM implementations versus medium to large companies, who received 115% ROI. Smaller companies saw the ROI pay for the investment in 1.14 years, compared to 1.52 years for the medium to large companies.

The primary conclusion, here, is that small companies should not think CRM is only for the "big guys." In reality, small organizations are most likely to benefit from CRM for the following reasons:

- There is most often no formal or automated process in place before implementation, and therefore, results tend to be positive and dramatic.

- Implementations tend to fix or alleviate a very specific need, rather than address broader and, often, less easily measured corporate issues.

- Change tends to be easier to implement in smaller companies, whereas large organizations have to contend with larger-scale training and change-management issues.

## Definitions

Important types of software to think about for accomplishing accounting and financial management goals include:

- **Accounting and financial management applications** cover packaged software that facilitates and automates such tasks as financial reporting, account receivables, account payables, general/ledger, fixed asset accounting, payment processing, and corporate governance and compliance.

- **Customer relationship management (CRM) applications** automate the cross-enterprise customer-facing business processes within an organization: marketing, sales, and customer service. Collectively, these applications serve to manage the entire life cycle of a customer, including the conversion of a prospect to a customer, in helping an organization to build and maintain successful relationships.

- **Human resources management and payroll applications** facilitate and automate such tasks as recruiting, payroll processing, payroll tax filing, compensation, benefits, human resources administration, training, and workforce management.

- **Other important types of software** to keep and mind and integrated with the above applications include customer relationship management (CRM), sales force management (SFA), lead/prospect/customer management, and business intelligence (BI).

For the purposes of this document, IDC defines businesses sizes as follows:

- **Very small business:** Under 20 employees

- **Small business:** 20–99 employees

- **Medium-sized business:** 100–999 employees

- **Large business:** 1,000+ employees

# A B O U T  I D C

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## C O P Y R I G H T  N O T I C E