ERP Pricing Guide

How much does cloud-based inventory and

accounting ERP software cost?

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Introduction

When trying to determine how much to spend on ERP software, many companies start off with an arbitrary budget, based only on what they feel they should spend and not on any real-world frame of reference. In addition, many ERP software companies are not transparent with their pricing schemes, which can lead to a disconnect between what businesses expect to pay for an ERP solution and what a system actually costs.

Companies coming from an introductory system are especially likely to experience sticker shock when they discover how much middle tier ERP systems can cost, as there is a large gap between the costs of implementing a more advanced solution. However, companies that are growing should consider upgrading their software as more advanced systems will be able to:

✓ Better handle an increase in order and transaction volume
✓ Manage orders from multiple sales channels
✓ Enable sales from around the globe
✓ Reduce the amount of manual and duplicate data entry (and the resulting errors)
✓ Allow employees to focus more on meaningful work and less on administrative tasks

This guide includes information about the true cost of inventory and accounting ERP software, including information about the different software price tiers, factors influence the cost of an ERP system, and provides a real-life cost example.

INSIDE THIS GUIDE

WHAT IS ERP?

ERP stands for "enterprise resource planning" and is a business management system designed to manage all aspects of a company's operations. This includes accounting, financials, order entry and processing, inventory management, contact management and warehouse management. ERP software replaces the need to buy and integrate multiple standalone inventory, accounting and CRM systems and works best for growing businesses looking to automate processes, increase efficiencies and reduce manual work.

Factors Affecting Cost

Many factors will affect the cost of ERP software, and these will vary by company. However, the two most influential factors when it comes to the cost of accounting and inventory management software (ERP) are:

1. *The number of users*
2. *The level of functionality*

Since most ERP systems charge for the software on a per user basis, companies with more users will incur higher costs. When it comes to functionality, more complex processes (such as managing multiple warehouse locations) may require additional functionality not included in base packages, or customization work, adding to costs.

Another factor affecting costs is whether a company chooses to implement the software as an on-premises (in-house) solution or as a hosted (cloud-based) solution. In this pricing guide, we look at the cost and pricing of a hosted (cloud-based) solution.

Hosted (Cloud-Based)

Hosted, cloud-based or SaaS, is a software solution that is managed on a vendor's equipment and server and accessed via the internet by the customer. The customer then pays a monthly subscription fee to use the system.

Advantages

- ✓ Reduced upfront cash outlay
- ✓ Infrastructure costs pushed to the software provider
- ✓ No more worrying about backups
- ✓ Painless upgrades
- ✓ Increased access to expert support (in lieu of an IT department)
- ✓ Improved security and reliability
- ✓ Possibly increased uptime
- ✓ Immediate or quick access to a broad range of applications

Disadvantages

- x Reduced control of systems
- x Data stored outside of the organization
- x Internet connection required
- x Client does not own the software

One of the main benefits to cloud-based software is that all infrastructure costs are the responsibility of the software vendor. This includes the costs of purchasing and maintaining the physical hardware and servers that the software lives on. You no longer need to budget for expensive hardware and infrastructure upgrades and the on-going maintenance of that type of equipment.

Implementation vs. Software Costs

With ERP software, there are typically two types of costs associated with the system:
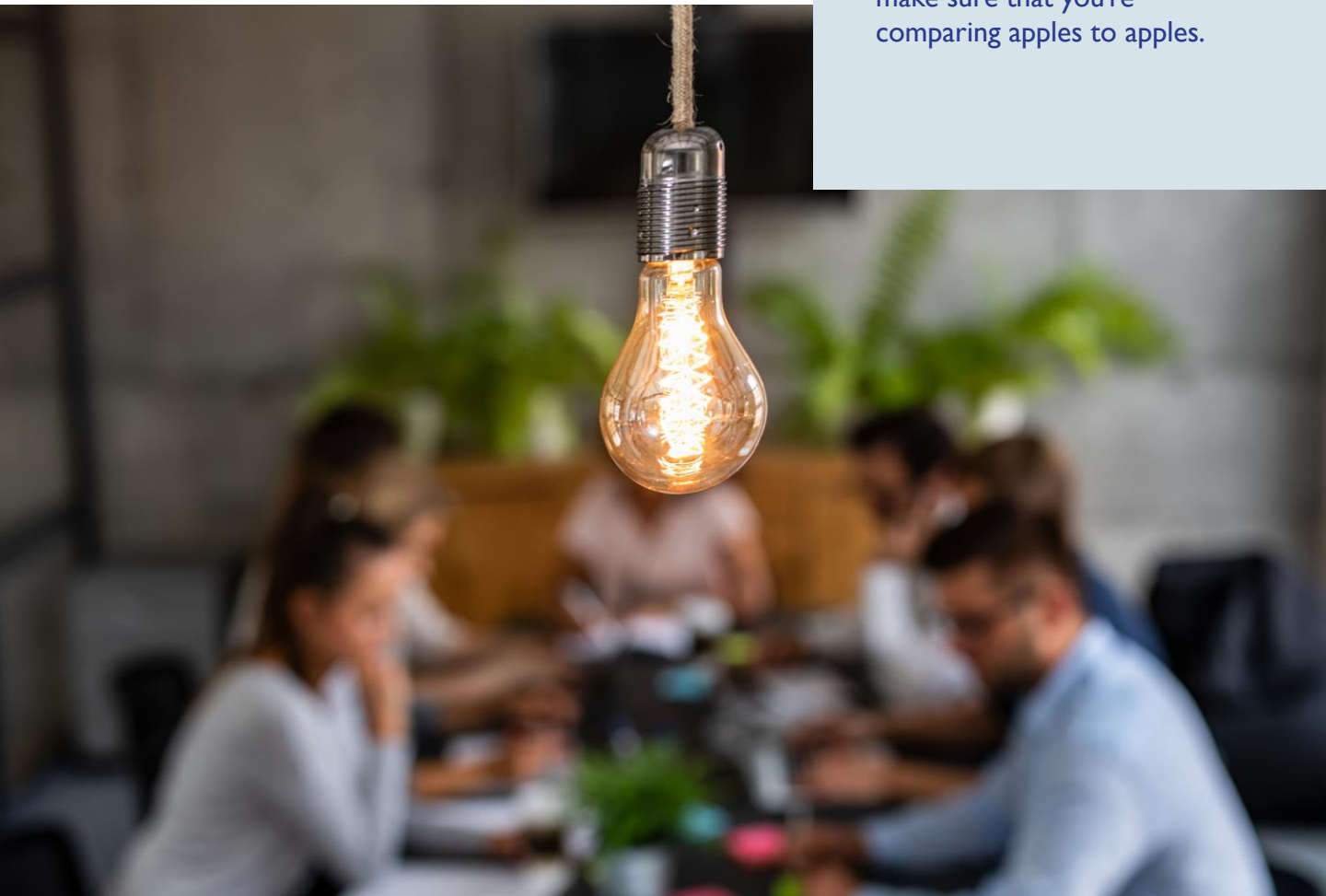
(1)   Implementation Related Costs and
(2)   Software Related Costs

Implementation related costs refer to all implementation related activities, such as training, data migration and employee downtime.

Software related costs are those that are based strictly on the software and include things like number of users, storage space and software features.

Both implementation costs and software costs can vary significantly from one vendor to the next. This is often because the software features and implementation services are quite different.

Therefore, when comparing different software quotes, make sure that you're comparing apples to apples.

Implementation Costs

Implementation costs are one-time costs associated with getting the software installed and set-up. These fees can vary from one vendor to the next, but will typically include the following activities:

- Data Migration
    - The time and resources dedicated to moving data from existing systems (or spreadsheets) into the new software.
- Employee Training
    - The time it takes to train employees on using new software. Some vendors provide face-to-face training plus addition resources like videos and help articles.
- Installation and Configuration
    - The costs associated with getting the software installed and set-up according to your specific business processes (for example, setting up your net receivable times).

Other Implementation Costs:

Internal Costs
Internal costs are those costs associated with people in an organization setting aside their day job to focus on the software implementation. This cost can be calculated by determining what percentage of employees' time will be dedicated to the implementation and will be generally the same no matter which software vendor you choose.

External Consulting
These fees include the cost of hiring an outside consultant to help with the search and implementation. Most small businesses will not require a consultant, while larger businesses with complex processes can greatly benefit from the help of an outside consultant.

Software Costs

Monthly Fees/License Fees

Monthly fees apply to hosted solutions and include license and maintenance costs. Although many companies do not price strictly on number of users, it is one factor that affects license fees and monthly fees.

Maintenance Fees

Maintenance fees refer to the costs associated with making changes and modifying the software after it has been implemented. Typically, this covers warranty issues and upgrades and includes work done to improve performance, fix bugs and implement upgrades. In addition, maintenance fees give users access to system specific trained expertise and "customer-only" information.
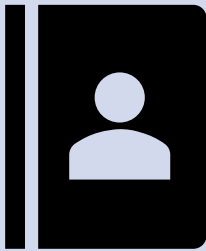
Customizations

Customization work refers to development changes that impact the way in which the system looks, works or behaves. Companies can typically make small changes to the system without needing to pay for custom development (through the use of system parameters etc.), however, you may also require customizations to meet the unique requirements of your business. Most companies will require some custom work and so as a rule of thumb, you should try to find a solution that can cover 80% of your needs out of the box.
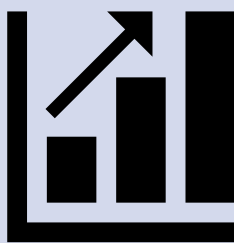
Different Software Tiers

There are 3 major classes of software systems, each designed for companies of different sizes and at different stages of their life cycle.

Introductory/ Basic System	Middle Tier ERP	Top Tier ERP
Example: QuickBooks	Example: Blue Link ERP	Example: SAP

Introductory/Basic System

Introductory systems will typically accommodate one business process (such as accounting) but some can handle more. However, they are not true ERP systems, as they must often be integrated with other systems to offer solutions across all business operations. This "small business software" is perfect for companies with minimal staff, low transaction volume and little inventory. These types of introductory systems typically require integration with other systems or may be used in conjunction with manual processes and spreadsheets.

Standard Features:
- Accounts payable, accounts receivable, general ledger
- Payroll integration
- Basic inventory tracking
- Limited business intelligence (reports and statistics, etc.)

Pricing - Year 1 License Fees:
$1,800 - $4,200

Examples:
QuickBooks, Sage 50, Fishbowl

Middle Tier ERP

Middle Tier ERP systems provide full functionality across all business processes and are perfect for companies experiencing growth.

Standard Features:
In addition to basic functionality, additional features include:
- Inventory controls and advanced accounting
- In-depth reporting capabilities
- Customer relationship management (CRM)
- eCommerce integration
- Barcode scanning
- Warehouse management and more!

Pricing - Year 1 License Fees: $12,000 - $60,000

Examples: Blue Link ERP

Top Tier ERP

Top tier ERP systems provide full functionality across all business processes and are designed for vast companies with global operations.

Top tier ERP Systems include all the same features as those designed for growing businesses, but are built to handle more users, higher transaction volume, locations around the world and more inventory. These systems are perfect for companies with 100's or 1,000's of users.

Pricing - Year 1 License Fees: $250,000 – many millions

Examples: SAP, Oracle

Features that Influence Cost

For more complex business operations, additional feature requirements can sometimes contribute to the cost of the system. For example, businesses with multiple locations, and those selling through multiple sales channels (eCommerce, brick-and-mortar, tradeshows, etc.) Below are examples of specialized features that can contribute to the costs of ERP.

1

Lot Tracking
Lot tracking/expiry date needs for businesses with potentially harmful products that may need to be recalled

2

Barcode Scanning
Mobile barcode scanning capabilities for receiving, picking and packing product while walking the warehouse floor

3

Number of Locations
Single vs. multiple warehouse locations, plus additional locations such as retail stores

4

Multiple Sales Channels
Selling through multiple sales channels such as eCommerce, Amazon EDI, brick-and-mortar retail locations

Cost Calculation Example

How much will a new mid-level cloud-based ERP system cost a company with 12 users that is investing today at the end of the first year?

Factors	Cloud-based/Hosted
Monthly Fees (License Costs)	($120/user/month *12 users)*12 months = $17,280/year
Maintenance	Included in monthly fees
Implementation Costs	$25,000 one-time fee
Customizations	Ranging from $1,800 - $30,000 one-time fee
Total Monthly Fees + Implementation + $1800 Customizations	**$44,080 Total Costs Year One**

Please note that for this example, we have used 12 users as a basis, however, it is important to note that many companies do not price strictly on number of users, and instead base costs off specific functionality as well.

On-Going Software Costs

When evaluating software costs, it is important to look at continuous on-going costs and not just how much money will be spent after the first year. Below we have outlined the expected on-going costs for a cloud-based/hosted solution with a total calculation after the 3-year and 5-year mark.

Description	On-going Annual Cost
Monthly Fees (License Costs)	$17,280/year
Maintenance	Included in monthly fees
Support	$3,000/year
Server Software Server Management Backup Media/Services Server Monitoring Install Patches	Variable, included in Monthly Fees
On-Going Annual Costs	$20,280
TCO (Total Cost of Ownership)	
After 3 Years	$84,640
After 5 Years	$125,200

When evaluating the costs of ERP software, it's important to treat the cost like an acquisition of any other significant business asset – such as a truck, new employee, piece of equipment or warehouse space. And keep in mind the potential cost savings (for example, reducing the number of people you need to hire to keep up with increasing sales).

ERP on a Budget

If purchasing the appropriate ERP software for your company seems impossible because of your budget, the good news is there are several ways to reduce the up-front costs of a new system.

Reduce Data Migration

Part of implementing a new software system involves migrating data from the old system over to the new system. There is no limit to the amount of data that can be migrated though, so cost savings can stem from choosing to migrate less data.

Evaluate Your Wants vs. Needs

Optional components to software packages are an additional cost, so knowing which features are a must have vs. something on a wish list is important in order to cut costs. New and smaller companies can run their business operations very efficiently using the basic system with few optional components, and these features can always be added in the future as budget allows.

Have the Right Mindset

Implementing a proper software system for your business can be an expensive undertaking. It is crucial, however, to understand the importance of such an investment and to treat it like an acquisition of any other significant business asset – such as a truck, new employee, piece of equipment or warehouse space. Keep in mind that the right system will also help you save costs elsewhere – in terms of manual processes, errors and the need to hire additional employees.

Conclusion

Although true ERP software systems are significantly more expensive than introductory software this is for good reason. Investing in the proper ERP solution for your business will help you save money and gain efficiencies in the future. An example of this would be reduced hiring costs and salary expenses by not hiring an employee to do work that an advanced ERP system can do. In addition, there are several ways that the cost of an ERP system can be reduced. When beginning the software search it is important to understand all the costs associated with ERP software and what impacts they will have on your business. This guide was designed to provide a more realistic cost approximation for ERP software and to highlight exactly where these costs are coming from.

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Accounting & Inventory Management ERP Software

Blue Link ERP offers all-in-one inventory management and accounting ERP software with specific functionality for tracking landed costs.

Learn More

Commonly used for businesses that import and export product, our ERP software will account for all costs associated with getting inventory to your warehouse – your true inventory costs.

With Blue Link software you will be able to:

✓ **Grow Your Business** with advanced functionality and an all-in-one solution

✓ **Decrease Costs** with better inventory management

✓ **Save Time and Automate Processes** across all business operations