



ERP Panel Papers:

Beyond Software: How to Budget the Cost of ERP Implementation Services

A panel of ERP experts nationwide reveals how to look beyond software costs and evaluate:

- ▣ The 4 costs involved in ERP projects.
- ▣ What you pay for as “implementation services”.
- ▣ How to determine a ballpark budget.
- ▣ The truth about “guaranteed” pricing.

The ERP Software Blog is proud to bring you *The ERP PANEL PAPERS* - a straightforward series of white papers from a nationwide panel of ERP experts focused on educating buyers through the entire process of finding the right ERP solution - from research to implementation.

This white paper explains what is involved in an ERP project, how to budget for and control implementation costs, and why “guaranteed pricing” can cost you more in the long run.

Note: These guides use Microsoft Dynamics® GP as the software example, but the principles presented should apply to all midmarket accounting software products.

Part I: “I Need New ERP Software – Now What?”

The Search Begins

There are many reasons companies begin the search for new accounting/ERP software. Perhaps you have outgrown an entry level package like QuickBooks, or your proprietary system is no longer supported. It could be that your existing software doesn't integrate with your other systems and you are drowning in double entry. Whatever the reason, the first question you will likely ask when researching options to replace your existing system is, “How much will it cost?”

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The more time dedicated to upfront planning, the less time the client spends wondering if the project will finish on budget.

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[- SBS Group](#)

With midmarket accounting software/ERP packages it's not as easy as finding a price tag on the bottom of a box. There are many variables that impact your final project price.

The only way to get a complete and accurate quote on the total cost of your ERP project is to work with a local ERP expert, called a partner or a VAR (value added reseller). *(The next white paper in this series will educate you on how to choose the best ERP partner for your needs.)* But sometimes you need a way to estimate the costs in the beginning stages of your research to determine if it makes sense to continue the evaluation process.

The Four Costs of a Complete ERP Project

The mistake many companies make when initially trying to estimate the cost of an ERP project is only paying attention to the actual software license costs. In reality, there are four elements to consider in your budget.

1. Software License Fees
2. Maintenance Fees
3. Hardware
4. Implementation Services

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The successful implementation of a new ERP system is not the result of luck or chance. It is the culmination of the project design, the implementation approach, and the dedication and effort of the project team members. Select an implementation partner that uses an approach based on best practices and proven results, built on a methodology rooted in deep experience and knowledge of how to be successful.

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- [Technology Management Concepts \(TMC\)](#)

Software

The actual license cost for midmarket accounting software is relatively easy to find. In the case of Microsoft Dynamics GP, the software list price is the same no matter who you buy it from and is published online by many partners. *(For tips on how to calculate the software license cost read [“30 Questions to ask About the Cost of Accounting Software”](#))*

Maintenance Fees

Typically you need to add 18% to the software list price for the required first year maintenance fee.

Hardware/Infrastructure

Your company may need to purchase a new server, upgraded workstations or SQL server licenses to run your new ERP software.

Implementation Services

This area is the largest “unknown” in most ERP budgets, and is the primary focus of this white paper. ERP Software Blog asked 18 ERP partners across the USA to explain what is included in implementation services, how to estimate the cost, and how to avoid paying too much.

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We have found the prototype to be the best tool for determining the software fit, the extent of customization required, and (most important of all) the most accurate estimate of the staff and financial resources required to complete the implementation.

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[- Computation](#)

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Often, buyers assume that a feature they really like is in every package. That isn't always the case, and that can end up increasing the cost when that is discovered later in the process. It pays to flush out all these requirements in advance.

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[- DFC Consultants, Ltd.](#)

Part 2: “What Am I Really Paying For?”

Implementation Services Defined

The term “implementation services” can seem vague, especially if this is your first ERP software project. The list below provides an overview of services that are generally included in this category:

Requirements Analysis/Definition of Scope

Analyzing and documenting your specific business requirements, scope and project plan. *(Note: Some partners charge separately for this and others roll the cost into the entire project.)*

Installation

Installing the software on your company's servers and/or workstations.

Configuration

Setting up the software with your business information, users and personal settings.

Integration

Configuring the software to “talk to” your existing systems to eliminate double entry.

Data Migration or Conversion

Transferring data from your current system to the new system.

Customization

Changing the source code of the software to fit a specific need or business process. *(Note: Customization is typically not included in an initial estimate as it requires a very detailed discovery process.)*

Reporting

Creating or modifying custom reports and forms not included in the standard software (such as invoices and checks).

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A train-the-trainer approach, where a few key people are trained and they in turn train others, can save costs and foster greater ownership and accountability by the end users.

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[- Feterick & Associates, Inc.](#)

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Setting, explaining and delivering on expectations are crucial to a successful ERP implementation. This is all based on trust which is a much different relationship than a vendor/customer relationship.

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[- Crestwood Associates LLC](#)

Testing

Testing the system to make sure you are ready to “go live”.

Training

Training the project team and end users on how to use and maintain the new system properly.

Documentation

Documenting how your system is configured.

Project Management

Controlling the entire project to make sure it stays on track and on budget. *(Note: Some buyers do not like to pay for this service because they perceive it as “overhead”, but actually it is a critical element to the success of your project. Even if you do not see it listed specifically in your proposal, your partner has likely rolled it into the cost.)*

Also, remember to factor in the costs for ongoing support. Some partners provide support contracts or discounted rates for buying a block of hours. While the software vendor may provide a limited number of phone support calls as part of the cost of your maintenance plan, most companies prefer to call their local ERP partner who is familiar with their system and processes.

This is a basic listing of services you should expect to discuss with your partner. Remember, just because your partner doesn't include one of these services on their estimate, or use the same terminology, doesn't mean it won't be a part of the project. The best way to find an ERP partner who matches your budget, schedule, and goals is to ask questions, or request written clarifications, until you have a complete understanding of what is included and what might be an additional charge.

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We want to empower our customers to be able to help themselves when appropriate. We always give our customers the opportunity of doing the bulk of the setup work themselves, or ask if they want to turn over the input tasks to us.

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[- Borek Business Solutions](#)

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It is important to spell out what is, and what is not, included, then document and communicate out of scope requests.

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[- Altico Advisors](#)

Part 3: “How Do I Determine a Ballpark ERP Project Budget?”

Without meeting with an ERP partner to discuss your specific software processes and goals, you will only be able to calculate a *ballpark estimate* of the cost of implementation services. The ratios presented here will not provide an exact number, but will help you ensure your budget is not out in left field.

Most of our partner panelists agree that the absolute minimum **software cost to services cost** for a standard ERP implementation is a 1:1 ratio. This means that if your software list price (before any discounts) is \$10,000 you would need to budget at least an additional \$10,000 for services – bringing the subtotal to \$20,000.

The first step is to calculate the software list price for your desired number of users or licenses, then at least double that price. If you are not comfortable with this number as a starting point, you either need to adjust your expectations or re-evaluate if your company is really ready for the investment of a midmarket ERP system. You could also consider financing or subscription-based software.

Now that you have a starting point, you need to consider additional factors that could increase that 1:1 ratio. Answer these 8 questions to better determine your anticipated software to services ratio:

1. **How many users will you have?**

If you have a small number of users (less than 3) you will pay more for services than for software. Conversely, if you have a large number of users (over 10) you may pay more for software than services.

2. **How much time can your staff dedicate to the implementation?**

If you are willing to be “hands on” during the process and complete tasks on your own (such as data entry and online training) it may reduce the number of hours provided by your partner and lower your services cost.

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It is extremely important for the client to realize what they are taking on when they decide to implement a new ERP solution. In all cases, the accounting staff has a full time job to do. So on top of that full time job, they must now have time to learn and implement an entire system, while still managing all their current responsibilities. When clients ask us if we can implement their new system in XX time, we say, ‘We can do that, but can you and your staff?’

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[– Sherwood Systems](#)

3. **How much customization or reconfiguration of the software will you need?**

In other words, how willing are you to change your processes around the new software if necessary? The more flexible you can be, the lower your costs will be now and in the future.

4. **Are you implementing core financial software only?**

Projects that have a 1:1 ratio are generally referred to as “vanilla” implementations of the core financial modules (General Ledger, Accounts Payable, Accounts Receivable, Bank Reconciliation, Invoicing).

5. **Does your company require distribution or supply chain management?**

Companies with more complex distribution and supply chain processes (inventory, purchase order processing, sales order processing) should budget at least a 1:2 ratio.

6. **Can you supply (or list) all the reports and documents you need the system to produce?**

If you need many reports that are not included out of the box, and you want your partner to set these up for you, this may result in a higher cost. Several partners recommend using as many out-of-the-box reports as possible for the first month or two as this can eliminate the costly changes of reports because “they are not like our old ones”.

7. **How much data conversion or migration will you need, and who will perform this work?**

The most obvious way to minimize your costs for data conversion is to bring only data you *need* to use often into the new system. If you require extensive data conversion with manual data entry it will increase your services costs unless your staff (or temp workers) can complete the work. Most companies keep their old system running and accessible for several months to access historical data rather than bearing the high cost to migrate it.

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At the end of the day, what matters most is trust. The customer must believe they are purchasing at a fair value a software solution and services mix appropriate for *their* business. And the partner, through upfront discovery, must gain an understanding of the customer's specific business needs *sufficient* to support the system proposed.

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- [Knaster Technology Group](#)

8. **How much training will your staff require?**

Do you have an experienced staff that is open to learning a new system? Training can be significantly impacted if the users being trained have little or no experience in similar systems, or are resistant to change.

If you aren't sure you qualify as a “vanilla” implementation, we suggest you budget at least a 1:1.5 software to services ratio to make sure you are in the ballpark, and then you can work with your partner to explore ways to reduce the cost. It is always better to find that you are paying less than you expected, rather than *more*.

This undoubtedly leaves some “gray area” to consider, but using the 1:1 or 1:1.5 ratio as a starting point will allow you to determine if your budget is even in the right ballpark. The best next step is to speak with an experienced local partner to determine a more accurate cost for your specific needs.

Just starting out? Take advantage of the ERP Software Blog [Online Proposal Tool](#) for a quick quote on software and implementation services. You can share your quote with a local partner as an excellent starting point for further review and fine tuning.

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It is extremely important for the buyer to carefully review the proposal and understand exactly what is included and what is not. Make sure all changes are included in writing and not just verbal agreements. This proposal will be used as the roadmap for controlling the entire engagement and determines when the partner may charge extra for work that is “out of scope”. The best way to protect your ERP budget is to ask lots of questions.

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- [CAL Business Solutions](#)

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The Time and Materials model can give you, as the client, more motivation to be active in the implementation. You have a stake in the game, as you want to help the partner control costs as much as possible. This leads to a successful implementation on both sides.

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[- Meritide](#)

The Time & Materials model helps the partner and the client share responsibility and manage the costs together which leads to a stronger partnership. It also offers greater flexibility to accommodate evolving requirements, alterations to specifications or functionality and unplanned activities.

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[- Socius](#)

Part 4: “Is There Such a Thing as a ‘Guaranteed Price?’”

There are two methods of pricing software implementations: “**Time and Materials**” and “**Fixed Fee**”.

Of the 18 partners who contributed to this paper, the overwhelming majority only quote ERP projects on a time and materials (or hourly) basis. Very few offer fixed fee pricing because there are so many variables in every ERP software implementation. Regardless of the pricing model, it’s important to do your homework and choose an expert ERP partner who bases their quote on a detailed discovery and years of experience so you can trust they will get the job done right and on budget.

Fixed Fee Pricing: The Truth Behind the “Guarantee”

It’s understandable that many buyers want the perceived “guarantee” of fixed fee pricing, especially in a tough economy. You want to know exactly what you will get and what you will pay for it. But fixed fee pricing is a misnomer. **You are never guaranteed you will pay one price regardless of what happens during the implementation.** You are only guaranteed that the partner will do what they carefully outlined in the proposal, with no changes. But as changes come up, and they always do, those changes will be considered extra work and you will pay hourly anyway, just as you would with a time and materials proposal. These changes are called “out of scope”.

On the other hand, a fixed fee price *will* protect you from getting burned by a partner who has no idea what they are doing. If they need to learn as they go along, you will not be stuck paying for the extra time it takes them to get the basic project done. But, who wants to work with a partner like that anyway?

Plus, most partners admit that fixed fee quotes have a built-in cushion to mitigate risk for the partner. If the implementation actually takes LESS time than anticipated, you will still be charged the full amount and pay for time you didn’t even use. So, while this may sound like a great deal initially, you may not save money in the end with this pricing model.

“Customers must keep in mind that software implementation is a team effort that includes you, the customer, and your reseller (partner).”

[-Custom Information Services](#)

“Time and materials agreements are the most beneficial to the customer from both a cost and quality perspective. You are only billed for actual work done rather than paying the overhead required by a partner for risk mitigation, and you have a better assurance of everything necessary being completed.”

[- The Resource Group](#)

Second-time buyers of ERP software realize that getting a software solution that meets their needs and having a staff that can use it efficiently is more important than having a fixed fee. There are many honest partners out there who genuinely want to help you control costs and deliver superior service. You can use our list of [contributors](#) for this paper as a great resource to find a trustworthy partner.

Time and Materials Pricing: Pay Only for What You Use

When you are paying a partner by the hour, it may feel like you are just giving them a blank check to get it done no matter how many hours it takes. However, there is a more realistic way to look at this pricing model.

Time and materials quotes given by experienced partners, like those on our panel, can be described as “fixed scope” quotes. The right ERP partner will do a thorough discovery of your needs and present a detailed proposal based on this information and their experience with perhaps hundreds of similar projects. This proposal should include a detailed explanation of what you will receive, and the estimated number of hours to complete the project. Any additional costs would be communicated to you in advance for approval.

While you are not guaranteed a certain price, as long as both sides stick to this plan, it should be the price you pay. If you are willing to pitch in more work along the way, or some type of customization proves to be less complicated than anticipated, you could pay even less.

Time and materials proposals are more flexible. If requirements change during the project, which they often do, the project manager has the flexibility to take budgeted time out of one area and move it to another. Or if you decide that you can do more of the work on your own you will not be charged for that time included in the proposal.

Let's look at a sample estimate based on the time and materials method of pricing.



Sample Estimate For Services:

Microsoft Dynamics GP Business Essentials Proposal		
Hourly rate: 175.00*		
Microsoft Dynamics GP Service* Description:	Hours	Extension
Project management, kick-off meeting	8	\$ 1,400.00
Installation on server / up to 4 workstations	8	\$ 1,400.00
QuickBooks Conversion ONE company : Import Chart of Accounts from QuickBooks. Includes one (1) year of GL Summary conversion; Vendor Master file conversion. Using QuickBooks Conversion Tool where possible.	28	\$ 4,900.00
Application Setup & Training System Manager, Financials: General Ledger, Bank Reconciliation, Payables Management	24	\$ 4,200.00
FRx Report Training Note: Does NOT include duplicating current report formats. We will begin training using your report requirements and you will be responsible to continue the report work and complete.	8	\$ 1,400.00
Integration to external system (OPTIONAL)	TBD	\$ -
Forms and report modifications	3	\$ 525.00
Travel - estimated 5 trips	4	\$ 700.00
IMPORTANT NOTE: Training time is included for the requested modules . Training on other modules included in the Microsoft Dynamics GP Business Essentials package will be available on a Time and Materials basis in person or via remote connection.		
Total Estimated Services:		\$14,525.00
* Hourly rate is based on an average from our panelists across the USA		

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In 25 years of experience, we have found that fixed price implementations are extremely detrimental to clients. Typically, the vendor inflates the price of the implementation to support any number of issues arising that could cause them to miss their services revenue goal. In addition, a fixed price guarantees the vendor a certain amount of money, even if the effort they expend is less than the price, and this causes the client to spend monies unnecessarily.

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– [The TM Group](#)

The key points to look at in this sample estimate are:

- ▣ The hourly rate is clearly defined.
 - The hourly rate of partners can vary considerably. Make sure you compare rates for implementation and for ongoing support.
- ▣ Hours are estimated *per service area* and not as a lump sum.
 - You want to know exactly what is included in your quoted price. If a partner only has a few hours included for training and you know you require more, this is a red flag.
- ▣ Estimate states what is included and, more importantly, what might be an extra charge.
 - Don't assume something is included unless you ask.
- ▣ Detail shows what tasks customer is responsible to complete.
 - Often buyers will agree to complete tasks on their own in order to lower the services cost. If you do this, make sure you have the staff available as this is one of the main reasons ERP projects go over budget.
- ▣ Quote includes travel time.
 - Miscellaneous fees such as travel costs are often not included in the budget but in the end they can add up to substantial fees.

When you receive an ERP quote, it's a good idea to have an honest discussion with the partner and ask them to explain how you can avoid going over budget. This will be the subject of another white paper, but the panelists all agreed that the number one reason for going over budget is lack of communication between the client and the partner.

Ready to Get Started?

We hope this paper has given you helpful information to begin budgeting for your ERP software implementation with confidence. Let's review what you can do to get started on your budget:

- ✓ Understand the 4 costs associated with your ERP budget.
- ✓ Decide how many users/licenses you will need.
- ✓ Learn the definitions of services so you are prepared to analyze partner proposals.
- ✓ Answer the 8 questions to find your anticipated software to services ratio.
- ✓ Determine the best pricing structure for your company's needs.
- ✓ Review the sample quote as a guideline of what to expect.
- ✓ Use the [Online Proposal Tool](#) provided by ERP Software Blog to obtain a quick quote.

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Team up with a partner who is not only an implementer, but also a business consultant. A business consultant that is an expert in the technology can inform you on what successful companies are doing and help you take a step back to look at your current processes before adding new technology.

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- [BroadPoint Technologies](#)

When these points have been considered, it's time to meet with a Partner. A future white paper in our series will discuss the importance of choosing the right partner for your needs and tips on how to find one.



ERP Software Blog

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