



# ERP COSTS, BUDGETS, AND PRICE NEGOTIATION

## INTRODUCTION

How much should you expect to spend on ERP software? Others will say it depends on the system and what you want to do with it but there are some general guidelines that will help you identify approximately what you should expect to spend on a new ERP system. Your investment will increase as you move from entry level accounting to SMB, SME, and Tier One ERP offerings. Additionally, the services required to implement the software will also increase dramatically. Further, you can probably get discounts up to 50% off in some cases if you know the tricks of the trade.

It's vital that you understand that most ERP vendors have very different pricing models. For example, some ERP products are priced based on named users and others are priced based on concurrent users (users in the system at the same time). Further, some user licenses are discounted for limited tasks such as shop floor data entry. Further, most ERP vendors are pushing subscriptions these days as opposed to traditional purchase pricing. Subscriptions are very different in that they include the license for the software and user licenses rolled together into a monthly or annual price which includes the maintenance and support costs.

Traditional sales of perpetual licenses where you buy and own the software are still available from some vendors and often require or offer optional maintenance and support plans (sometimes called clientcare or businesscare). These average about 20% of the original software list price so if the software cost \$100,000 to buy – you'll probably spend about \$20,000 annually on the maintenance and support plan to ensure that you have access to new versions and support. And you kind of have to stay on plan for the maintenance and support. ERP vendors will ding you pretty hard if you don't renew charging you penalties for reinstatement. Further, off-plan customers are pretty much on an island – they cannot purchase any additional modules or users and they're out of luck if there's a problem with the software that requires a source code change as there are very few options outside of getting back on plan or paying a licensed developer to fix the problem.

Subscriptions are increasingly popular these days because they're good for the publisher and the customer alike – especially in a hosted deployment. This is no different really than Microsoft's new approach with Office365 where you don't buy the software – you simply rent it for a monthly fee and it automatically updates.

Subscription plans for cloud and SaaS applications vary dramatically. For example, midmarket cloud ERP and accounting products typically charge for a base subscription for licensing the software in various configurations. Depending on what you need, the subscription price typically starts at around \$1,000/month for the basic configuration up \$10,000 per month for larger, enterprise cloud deployments. These prices typically don't include users which are around \$100 per month each. So what does this look like? A 10 user midmarket cloud accounting or ERP system would cost you about \$22,000 annually on subscription. That's an average of \$2,200 per user annually (just under \$185/user/month). By comparison, a similar 10-user midmarket ERP purchase (with similar bells and whistles) works out to about \$27,000 for the first year and about \$15,000 for future years. The purchased, premise application would cost you more upfront but less in the long-run as the recurring costs are considerably lower. But you also have to consider the intangibles that go along with cloud applications – reduced IT costs, no need for operating system or database licensing, reduced hardware costs, and faster deployment.

And then there's services which can be even more confusing than the pricing. Do NOT try to self-implement SMB or SME or Tier One ERP products – you are not saving money. You will only cause problems that will cost you more in the end. Pretend that the service costs are non-negotiable and simply let the experts do what they need to do to implement your software.

### [Entry-Level Accounting](#)

Companies can buy a business system for almost nothing when they are small and still building and growing their business. A subscription to QuickBooks starts at just \$12.95. You can barely eat at McDonald's these days for that little investment. Even QuickBooks Enterprise is very affordable at less than \$10,000 for a growing business. But there is one thing that makes the leap from QuickBooks to ERP a big one for most companies – implementation services.

When you start a business using QuickBooks, you can probably implement the software yourself or maybe you watch some tutorials and hire a consultant to help you with a few things. There are a lot of QuickBooks consultants and most charge relatively low rates ranging from \$75 per hour up to maybe \$125 per hour. Even if your business is relatively complex, you may only be looking at 40 hours of assistance. That's only \$5,000 on the high end. So for \$15,000 you can get a scalable entry-level business system up to 30 users fully-installed, configured, and ready to use.

Based on our experience, a company will typically use QuickBooks and some add-on extensions until they reach as high as \$5 million to \$10 million in revenue or 20-50 employees.

### Entry-Level ERP

The next step up from QuickBooks is a big one for most businesses. Products like Sage 100 (Sage MAS 90), Microsoft Dynamics GP (Great Plains), etc. typically cost about \$2,000 per user when you consider the total cost for the required modules. A manufacturer or distributor with 10 users is looking at a minimum of \$20,000 for the software license. But the services to implement these systems is almost always a 1-to-1 ratio meaning that they're looking at another \$20,000 to implement it due to the advanced features and options available. Consultants in this range typically charge between \$150/hour to \$200/hour with the average being around \$175/hour in most geographies (more in large metropolitan areas and less in more rural areas). This equates to about 114 hours of consulting.

So the jump from \$15,000 at the high end of QuickBooks to a moderate entry-level ERP system at \$40,000 is a pretty big jump – an increase of over 60%.

Companies can generally use entry-level ERP systems like those offered by Sage and Microsoft until they reach maybe \$20 million to \$50 million or up to 100 to 250 employees.

### Add-On Options

So what does a growing company do? They use QuickBooks or their entry level ERP for way too long. As these companies grow larger they buy add-ons and implement disconnected systems to handle the things QuickBooks or their entry-level ERP system doesn't do and they use Microsoft Excel and common business tools to do the rest. Basically, they make do with what they have with marginal improvements until they get to the point that they can justify the investment in a true ERP system. There are very, very few products that bridge this gap – especially for smaller distributors and manufacturers who often require the same advanced functionality only available in larger systems.

One product that fit this segment was DBA Manufacturing – a general manufacturing add-on that included its own accounting but was also available for integration with QuickBooks. The product is still available today for \$3,000 for five users. This is a pretty good option for companies that are ok with taking a small step in advanced features without the high cost. There are a few other (albeit limited number of) solutions on the market for growing distributors and manufacturers. QuickBooks and even products like DBA offer limited supply chain management capabilities. One consideration is that companies can usually use

QuickBooks for general accounting for a very long time but they outgrow the operational side of the product very fast.

### Mid-Market ERP

The next step up from Entry Level ERP systems is again, a much larger jump in terms of cost and complexity. Epicor, for example, is one of the leading midmarket ERP providers for manufacturers. Software alone will cost about \$5,000 per user (same for most similar competitive products). So a 10 user system will be around \$50,000. But in this market segment, the implementation will be at least a ratio of 1:1.5 if not closer to 1:2 software to consulting. Consulting rates are about \$175 to \$225 per hour for experienced consultants. So a \$50,000 investment really means a \$125,000 to \$150,000 investment for a fully implemented solution. This is still money well spent but it may simply be out of reach for smaller companies.

Companies typically move to mid-market products like Epicor when they've reached about the \$20 million revenue mark and have over 100 employees.

### Enterprise ERP

When a company grows further, typically beyond \$1 billion in revenue or over 1,000 users they most often start considering tier one ERP systems even though systems like Epicor can scale this high (and much higher). Tier One ERP systems like SAP and Oracle are designed for larger enterprises and are very costly. The price is usually at least \$10,000 per user and the implementations are historically at 1:3 to 1:4 for software to consulting costs. So, a company with 50 users will spend approximately \$500,000 on software and an additional \$1.5 MM to \$2.0 MM in consulting services. Implementation services are not cheap and run from \$250 to \$300 (or more) depending on the specialty of the consultant.

### ERP Budgeting Tips

There is no easy way to estimate how many users you'll need or what type of investment you might need to make in a business system but here are some suggestions based on our experience working with companies in a wide variety of industries to help you with your budgeting while you build a business case for next generation ERP:

Consider 1 user per every 2 employees. This can be 1 user per every 4 employees in environments such as manufacturing where employees such as laborers often do not need direct access to the system or in industries like professional services where many employees will simply access a time entry system as opposed to the full project-based ERP system. Consider that most companies should spend at least 1% of their annual revenue on a new business system. This means that a \$1 million business should expect to spend \$10,000 on a business system (software and consulting) while a \$10 million business should budget closer to \$100,000, and a \$100 million business should budget \$1 million to purchase and implement a new system.

Most companies across industries average at least \$100,000 per employee. If you're looking to budget your ERP system by employee size then plan on spending about \$1,000 per employee on a new business system. This is actually a great way to look at the investment. Since most

companies keep their business software for close to 7-10 years, this means your initial investment is about \$120 per employee per year or \$10 per employee per month.

You can purchase less expensive software and you can find less expensive implementation resources but this is very risky. Since this is a major capital investment that you don't want to do again for another decade – it's best to do it right the first time and a failed ERP implementation has killed many companies. Budget appropriately and do not sacrifice the success of your project because you short-changed the implementation.

Implementing an ERP system is much like having a brain transplant while you're wide awake. It is going to be a painful process transferring the knowledge you have accumulated to your new brain – all the while continuing to operate as if nothing has changed.

### CONCLUSION

Companies often grow slowly and over time come to the realization that their current business software is lacking the capabilities they need to remain competitive. While their accounting requirements may remain relatively unchanged and are supported just fine with their existing system, they often feel a lot of pressure due to the inadequacies of their business system in respect to operational and supply chain features. Most accounting systems and ERP systems have basic payables and receivables but there is a QuickBooks doesn't offer a robust bill of material and even midmarket systems from Sage and Microsoft don't have all the supply chain features needed for a growing company. Businesses can augment their existing systems by integrating third party products, developing work –arounds, using manual systems and spreadsheets, or by hiring consultants to build them additional features but inevitably they will have to switch their ERP systems if they want to remain competitive.