

In the earlier issue, the importance of ERP for SME was discussed. It was emphasized that for best performance, ERP solutions should be modular, open, simulate reality and also be comprehended in terms of coverage and scope. In this article, we shall answer a few questions and cover issues, which are important for successfully implementing an ERP package.

What does ERP really cost? What is the hidden cost?

Experience shows that SMEs with turnover of Rs.10 Crores to Rs 100 Crores have successfully implemented ERP solutions in their organizations. The Total Cost of Ownership (TCO) of ERP and the hidden cost depend upon the quantum of Hardware and the System software the functional areas to be covered and the volume of transactions.

The myths surrounding the ERP packages are that the cost could vary from Rs 15 to 25 lakhs for a few functional modules with limited users. It can be noticed that this cost is prohibitive for SMEs with turnover of less than Rs. 10 Crores.

The reality is that it is possible to acquire an ERP package covering important functional areas such as Purchase, Stores, Sales, Production and Finance with 10-user license yielding "Material and Money balance sheet" information on-line for about Rs. 5 - 6 Lakhs only.

Certain cost are more commonly under estimated like

- Training of end users and department personnel
- Implementation of the solution.
- Post implementation support for six - twelve months.
- Cost of migration from the legacy system.

The hidden cost for a typical setup discussed above, would be in the range of Rs.2 - 3 lakhs.

The Total Cost of Ownership (TCO) covering Hardware, Software and ERP package from the acquisition stage to post implementation support stage would be in the range of Rs.13- 15 lakhs. According to an independent research study, Total Cost of Ownership (TCO) on an average is about 0.5% - 1.5 % of revenue of an SME.

How to evaluate an ERP system? Will ERP fit the way I do the business?

The most important criteria is the credibility of the ERP vendor. Very few companies have survived in the ERP product development, both nationally and internationally. The goal of ERP should be to standardize all business processes. However, to start with, for an SME, the focus should be on Inventory, Sales, Finance, Planning and Production functions followed by Human re-



ERP for SMEs

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source information.

Scalability and flexibility are other important factors. The package should be able to handle large volume of transactions as the business grows in terms of vendors and customers. Multiple site support is another criteria for evaluation. User friendliness is important. The package should not demand hundreds of hours of the training per user, which will result in pushing the productivity down. The faster the end user completes training, the faster the benefits. Customisation should be kept minimal in the package and use of the package on " as is where is" basis may be considered for quick results. Evaluation of the functional specifications of the product by the users is other important criteria. Such evaluation is recommended to check the ERP product features/functions compatibility with the business process cycles of an application area covering Masters, Transactions and Reports.

For example, consider Credit Purchase application with test data

Masters like Creditor Accounts, Stock accounts, Tax and Duty Structures, Cash & Bank accounts, Suppliers, Payment terms, Currency, Materials are to be created.

Transactions like Purchase Indent, Enquiry, Quotations, Purchase orders, Material Receipt Notes (MRN), Quality Acceptance, Bill Passing (Purchase Vouchers) and Payment Vouchers need to be covered.

Options like part material rejected, Part Advance paid, Part payment out of bills booked, Excisable Items, entry of RG part 1 and 2 registers need to be considered.

Reports on Checklist like Accounts Master, Supplier master, Material Master and Statements like Comparative statements (for the quotations received), MRN for a period, pending order status, Material receipt note waiting for QC, QC accepted, MRN pending for bill passing (with value). Creditor outstanding statement, General ledger, Bank/Cash book etc need to be covered

Documents like Enquiry, Purchase order, MRN, Bill Passing voucher, Payment voucher etc will have to be standardized.

Such detailed evaluation must go on for

the other processes like Cash Purchase, Capital Purchase, Sub Contracts, Material Indent & issues, Bill of material & Material Requirement Plan, Batch sheet, Work in progress, Domestic sales, Export sales etc.,

While evaluating, the requirements have to be divided

into "Must to have" and "Nice to have". Focus should be on "Must to have", because, for "Nice to have", the imagination is the limit.

After evaluation, if the suitability is more than 70%, it will be safe to proceed further with the vendor. Such evaluation process will also bring in user involvement and their commitment, which is very crucial for implementation.

In addition to above, local presence of the ERP vendor will be of importance for support. In most of the cases, regular updates or patches will become necessary to meet the statutory issues and changes with respect to taxation, customs, excise etc., The local support will be of great significance on such issues.

(THE AUTHOR IS THE MANAGING DIRECTOR OF AN ERP COMPANY FOR SME. THE READERS MAY SEND THEIR QUERIES TO VIJAY@SYSCON-SOLUTIONS.COM)



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