When is the Right Time to Switch from Rudimentary Accounting Software to Full Fledged Cloud ERP?

DIGITAL FIRST

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Introduction

Losing control of inventory is a key challenge to businesses of any size. It can lead to unhappy customers waiting on their orders, failure to manage supply and demand, unnecessary cost and ultimately, reduced profit.

One of the most common reasons for losing control of inventory is when you push your accounting program beyond its limits.

Some desktop accounting programs come with advanced inventory modules, whereas newer online accounting software connects to third-party inventory management apps.

However, both these approaches can fall short when a company reaches a certain size or level of complexity.

Knowing the point at which inventory control is in jeopardy, and when it's time to move towards a new system, is one of the most critical decisions faced by a growing company. Yet, it's a juncture that is frequently misjudged.

The symptoms can be obvious. You might be running out of stock or writing off obsolete products. Sometimes, the real impact is hidden. These could include reduced margins due to handling stock more than necessary, or failing to respond in time to a fluctuation in demand.

Many companies count this as a cost of doing business and stick with their existing accounting software such as MYOB, Xero or Quickbooks. They stay with what they know and what has worked in the past, thinking they would rather avoid the expense of new software.

Or, they may respond by augmenting their accounting software with additional systems and spreadsheets. But this can just create new problems for inventory control.

These actions suggest a business that is failing to understand the cost of poor inventory control. It also ignores the enormous potential from embedding inventory management into the systems that manage critical business processes.

Often the smartest approach is to invest in an ERP (Enterprise Resource Planning) platform that can turns the complexity of inventory into a foundation for growth in sales and on-time delivery.

This whitepaper looks at the tipping points in an inventory-based business for moving from accounting software to a cloud-based ERP platform.

Six signs your inventory is outgrowing your accounting software

All businesses understand that the ability to track inventory is crucial to their business. Yet many continue to operate outdated systems without understanding the breaking points that indicate it's time to change.

1. Tracking stock in multiple locations

A business rapidly becomes more complex when it adds additional channels for delivery. For example, bricks and mortar stores can add an online store and both can be serviced from warehouses in multiple locations.

Many SME accounting programs can only manage stock in a single location. A business often tracks the total stock in the accounting program and resorts to maintaining multiple spreadsheets to track stock across multiple locations.

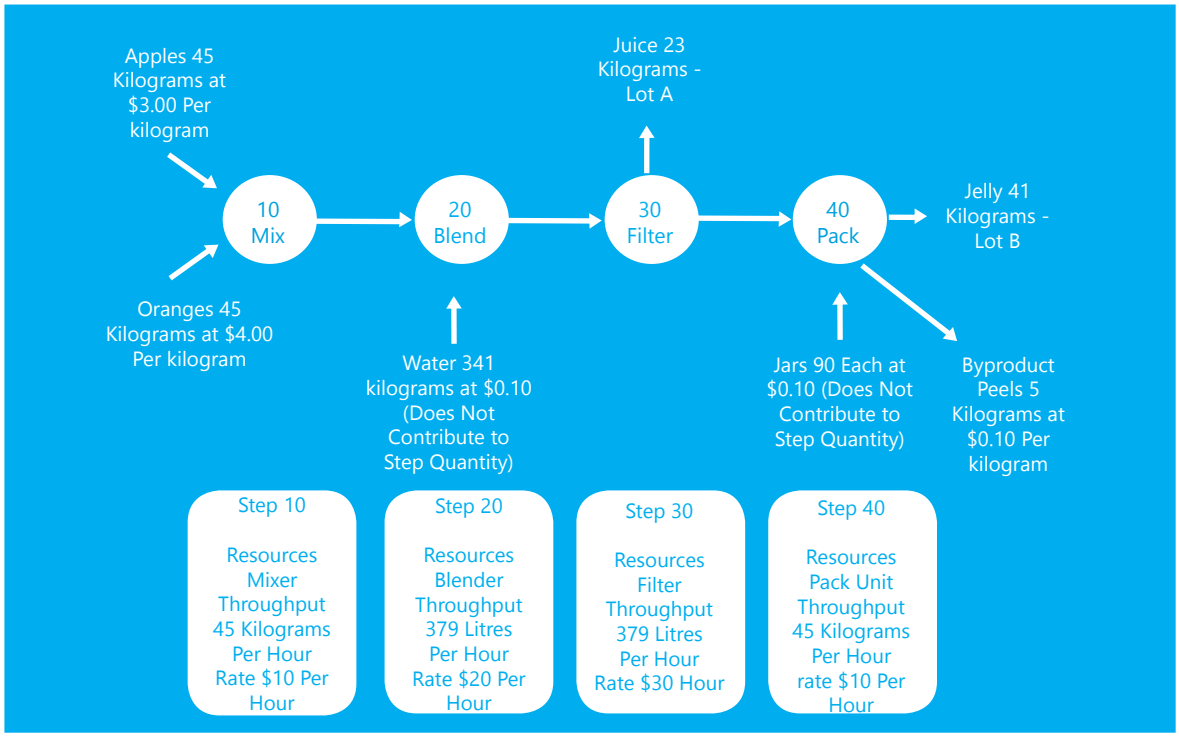
By the time the business gets the information it needs it can be too late to act. Stock is either over or under-ordered and more agile methods such as demand planning are impossible.

Carrying extra inventory ties up working capital. It also runs the risk of writing off obsolete inventory. Failure to meet demand is detrimental to both margins and customer satisfaction.

2. Using advanced costing methods/processes

Businesses carrying bigger inventories often require more complex accounting methods. However, even a small business could use a combination of three costing methods: FIFO (first in, first out, often used for perishables) stock accounting; lot-based costing (eg. in food processing); and weighted average, which tracks the average cost of production of a product.

SME accounting software usually only has a single costing method.



The situation becomes even more difficult when a business imports stock from overseas. Now it needs to tackle multiple currencies from an inventory costing perspective – but often accounting software only deals in one currency or doesn't convert currency valuations automatically.

Again, a business typically turns to spreadsheets to manage the extra accounting required.

3. Manufacturing your own products

Even simple manufacturing is challenging without a system to manage the process. There are many costs to track – inputs and labour must be added to the cost of the finished product. Otherwise it is difficult to manage yields or wastage, tasks that are cumbersome and prone to error when done manually.

Manufacturing is one of those industries where incoming and outgoing inventory in a warehouse needs to be tracked in real time. Without this it is too difficult to handle forward planning and re-ordering.

4. Switching between too many systems

Often, a business hitting the limits of its accounting software will augment it with additional systems and spreadsheets. A common example is to bolt on an inventory management system to software packages such as MYOB.

However, systems integration can be a challenge especially with desktop software. A business can end up with silos of information that must be updated separately. Disparate systems holding source data add unnecessary complexity and slow down decision making.

Manual updating and reconciling between systems can work, but in an evolving and low-margin business environment, not for very long.

5. Uncertainty in levels of available inventory

This situation is usually the result of operating in a siloed manner. Only your accountant may have a clear idea of inventory levels because they are responsible for updating multiple programs. Often, it may not be practical to share a master spreadsheet or the spreadsheet may only be updated once a day or even once a week.

Effectively planning the right level of inventory requires knowledge of all sales orders and purchase orders. For example, you need to know when there is a surge in the sales of a particular product so you can order more stock. Likewise, your sales team can't make promises to customers about delivery times if they don't have confidence in the stock at hand. They may need to "check with accounts" before they close a deal rather than make the sale on the spot.
Companies that use their supply chain partners to manage inventory and customer shipments also need to know stock levels through that chain.

6. Getting the reports you want

Inventory value can be a significant portion of a business's stated assets, and the recorded value in its books must match the physical value in the warehouse.

If inventory management systems are not integrated with back office chart of accounts, or reconciliation is attempted manually, errors that impact the financial integrity of company reporting can creep in.

This can have knock-on effects throughout the business. Accurate stock valuations are very important for insurance cover, the amount of cash at hand and knowing a company's level of debt.

Why ERP can manage inventory better

Today a small business can connect a number of third-party cloud programs to their accounting software to replicate the functions of an ERP. However, an ERP has several key advantages.

Single interface vs multiple interfaces

A well-designed ERP system tracks all key information relating to resources in an organisation in a single interface.

Accounting software requires a business to store financial information and non-financial information in multiple systems, meaning users must switch between multiple interfaces.

Each interface requires training and ongoing education for staff and potentially conflicting information where systems are not syncing properly.

Approval workflows vs full access

ERPs can customise approval workflows, whereas accounting software doesn't differentiate enough between users. Access to parts of the accounting program is often either all or nothing. Restricting access means employees are unable to see information in the business they need to make decisions (such as sales). Or a company has to reveal commercially confidential information to employees for the sake of efficiency.

Single database vs multiple sync

An ERP stores all information in a single database, ensuring information is current across all functions within the ERP. Accounting software uses multiple databases that sync data between them. This syncing can occasionally fail, especially when one of the syncing applications has a major update.

How an ERP addresses challenges with inventory

1. Optimising your inventory

ERP platforms remove the need for manual inventory management and reconciliation. It is replaced with a system where inventory management is fully integrated with back-office and accounting processes managing optimal levels of stock at multiple locations based on demand.

An ERP can set minimum and maximum stock levels, calculate expected demand for products and suggest re-ordering based on these forecasts.

The real-time visibility means a business always knows what inventory it has and whether it can meet sales orders and correctly forecast future sales. It can detect slow moving inventory in real time which may prompt a business to take action. For example, a special promotion could clear stock before it becomes obsolete.

An ERP also frees up working capital from the process of storing, counting and reallocating inventory, and reduces associated errors. It improves margins and ensures customers receive the products they're expecting.

2. Using multiple methods for forecasting and pricing

ERP platforms are designed to work within the most complex businesses that use a variety of costing methods. If a business is importing stock, an ERP can manage total landed costs in multiple currencies by automatically converting it to the local currency.

ERPs are especially well suited to businesses with multiple sales channels – for example online, retail shops, discount outlets and trade sales. An ERP can set up systems to manage all these channels, whether it is to send stock to certain customers or to fill orders from multiple warehouses.

You can use an ERP to set rules for fulfilling orders. For example, an online retailer with warehouses in different states can set up a rule to ship products to a customer from the closest warehouse.

3. Streamlining your manufacturing processes

ERP gives a business complete, real-time visibility over its operations from beginning to end. This is a critical benefit to a manufacturer. By effectively managing its supply chain, a manufacturer can reduce delays in waiting for parts to complete orders. Whether it's a global or domestic supplier, contract manufacturer or vendor, stock levels flow right through the chain.

If the ERP solution is cloud-based, this enables a business to enter new international markets faster. It eliminates many of the traditional limitations of a supply chain that covers different geographical locations.

An ERP can potentially track all the costs associated with manufacturing. NetSuite for example provides inventory tracking by maintaining a complete history of components sold in a product kit or package throughout its lifecycle.

Crucially, an ERP also offers scalability. If a business starts with light manufacturing but expands to advanced manufacturing, the system can handle the increased complexity.

4. Gain access to accurate reports instantly

An ERP system provides a single source of truth on data: inventory, customer information, debtors, sales. Business critical information is visible in real time.

When inventory is accounted for in real time, across multiple warehouse locations and multiple sales channels, a business can make quick and well-informed decisions.

Activities such as storing, counting and reworking inventory that tie up additional working capital and potentially reduce the availability of products, are eliminated.

It is also much easier to run accurate financial reports. Financial integrity is much easier to maintain when transactions in the inventory system are integrated with the back-office chart of accounts.

Online vs on-premise

Previously, the idea of investing and installing an ERP seemed daunting and risky. Several years ago the only option was to set up an ERP on servers managed internally by the business or by an IT partner.

Besides the large upfront and ongoing costs to purchase and manage the software, companies also had to pay for the servers and associated hardware required to run it. In addition, the business had to employ IT staff to maintain and protect the system.

Deploying an on-premise ERP is more complex because the company needs to buy enough processing power to support the application as it grows in size. And if the ERP software company releases new product updates, the IT team has to repeat the process of customising the system again to meet demands.

The advent of cloud ERP has freed businesses from these costly and time-consuming tasks. The responsibility for maintaining the software and supporting hardware is borne by the ERP vendor. Installation and ongoing costs are much lower as a result. System upgrades are all handled off site, not by the company's own IT team.

It is also much easier to access a cloud-based ERP. Staff can view and enter real-time data via the Internet from anywhere, on any device with a browser.

Case study

Company: Emma and Tom's
Head office: Melbourne, Victoria
Industry: Healthy drinks and snacks
Manufacturing: Australia

Direct markets: Australia and international
Date of implementation: 2013
Staff: 60

In 2013, Emma and Tom's, one of Australia's leading producers of healthy drinks and snacks, was using the same MYOB accounting software they'd started the business with nearly a decade earlier.

MYOB was the right choice at the time, says co-founder Tom Griffiths, but was now failing in the area most critical for this growing business: inventory management.

"We are a stock-based business. For a smallish business, we are as complex as a big multinational that makes the same product. MYOB couldn't keep track of stock in more than one location – we just didn't have the information we needed."

Emma and Tom's products are made in four places then shipped to one of four warehouses for distribution.
"I've also got 44 vans on the road, so if you are being highly regimented, they are also stock-keeping locations," says Griffiths.

Griffiths says poor inventory control meant they were unnecessarily writing off product.

"For example, we would be out of Green Power (a drink) in Melbourne but we wouldn't realise we had an extra pallet in Sydney. Two weeks later we'd be told we'd just written off that pallet of Green Power in Sydney because it was out-of-date when it could have been shipped to Melbourne and sold."

Griffiths says the whole company was "held together with spreadsheets". It took a staff member five business days to do month-end reconciliation. Stock reports arrived too late to influence decisions on reordering or hiring more staff.

"And it wasn't real time. Often you would not know a result until weeks after month end, and then of course it's too late to do anything about it."

After scoping for new options, Griffiths settled on NetSuite. He estimates the costs of transition, including hiring consultants for the installation and paying a monthly consultancy fee, were around $10,000. The cost was mitigated almost immediately by vastly improved inventory control.

"To be frank, you can lose $10,000 worth of stock in one week if you have poor control. With four warehouses, and if you are losing 200 units per warehouse per day, it doesn't take long," Griffiths says.

Since going live on NetSuite, Emma and Tom's has achieved 30 percent revenue growth year-over-year.

They can now track sales in all states and inventory levels across all warehouses in real time. Since adding a plugin called DSD, sales from mobile distribution vans are reported live into NetSuite too.

"If a driver invoices 10 bottles of Green Power to a shop in Canberra I can look in NetSuite and see Green Power stock drop down by ten bottles and in exactly which location. It's live," Griffiths adds.

Griffiths says this line by line, real-time sales analysis helps drive strategic business decisions.

"I can look and see that our Sparkling Cola is in only 10 percent of shops in a particular state but it is selling as well as Green Power, which is in 80 percent of shops. That tells me to get my sales team to push the Sparkling Cola because its rate of sale is as good as Green Power."

The staff member who once spent five days a month doing month-end reconciliation is now free to work in areas of the business that actually add value.

As Emma and Tom's move further into online sales, NetSuite is moving with them. Griffiths says he's found a plugin that allows their ecommerce app Shopify to speak to NetSuite.

"All our online sales will go straight into the accounting system via this plugin," Griffiths says.