

The Issue

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How to have an ERP System on Steroids

Financial Management enhancements for the Cloud

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In the March 2015 edition of [The Issue](#), we discussed the challenges facing companies moving from a desktop financial management solution to a cloud-based ERP system. One of the main benefits provided by moving to the cloud is the ease in which systems can be scaled and upgraded, providing additional functionality as the business grows. In this edition, I want to discuss how to get the most out of your cloud-based ERP system and some of the pitfalls, especially when adding third party modules.

The core tool of financial management is the Enterprise Resource Planning (ERP) system. These systems are an integration of business management tools that go way beyond traditional desktop accounting systems. Typically, ERP systems are a suite of modules organized around business processes that both influence and are integral with finance. These include procurement, production, distribution, payment, accounting, human resources, corporate performance and governance, enterprise asset management, business intelligence, and e-commerce. Such systems “collect, store, manage and interpret data”¹ to enable managers in a broad spectrum of company functions to run the business efficiently, generally in real-time, through the use of common databases.

While “Big Data”² has revolutionized the breadth and number of data inputs and dramatically increased the speed and complexity of analytics, there are some challenges for the financial professional. Because transaction processing in an ERP system resides outside the exclusive purview of accounting,

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¹ Wikipedia

² Big data is a broad term for data sets so large or complex that traditional data processing applications are inadequate. Challenges include analysis, capture, curation, search, sharing, storage, transfer, visualization, and information privacy. Wikipedia

elaborate control features must be built into each module to prevent the entry of erroneous data by non-accountants who are not expected to understand the accounting implications of their entries. These entries serve as data inputs that are used in several different business operations and so could impact reports and decisions based on the data.

Further, the ERP modules pass data between each other in real-time, in a seamless manner (without downloading to a data file, then uploading to a different module), that is transparent to the user. This means that your data communication, security and backup become critical issues for the financial professional.

Finally, as rich as the ERP solutions have become, most do not currently address all of the functionality that financial professionals desire. They cover for this deficiency by basing their software on an open architecture with Application Programming Interfaces (API's), allowing independent developers to develop solutions that then plug-in to the master platform. Indeed, a whole industry has grown out of the need to supply solutions that the ERP systems have yet to address.

This is how you really get the bang out of your ERP implementation and the focus of this edition. Let's explore some of them.



Typical Modules

- CRM. The most prevalent add-on module is Customer Relationship Management. CRM systems manage “a company’s interactions with current and future customers. It often involves using technology to organize, automate and synchronize sales, marketing, customer service, and technical support.”³ While there are standalone giants in the CRM industry, such as Salesforce, many of the major ERP suppliers either (1) provide their own CRM solution, or (2) provide integration capability with companies, such as Salesforce. The CRM will link the sales funnel to the accounting system, with sales and marketing personal entering data on opportunities that will be closed “won” or closed

³ Wikipedia.

“lost.” The financial benefit includes ROI on marketing and sales activities and dozens of drill-down reports on campaign effectiveness. The financial professional, however, needs to understand and oversee the assumptions made by sales and marketing personnel that can have dramatic impact on ROI reports.

- Paperless processing. The advent of true paperless processing is upon us. Digitally signed contracts, digital invoices, digital payments, digital document storage and retrieval, file sharing and collaboration where paper is replaced by bits-and-bytes stored electronically, and accessed or passed seamlessly over the Internet are becoming widely accepted. The input tools can be smartphones and scanners and the forms can include QR codes, UPC codes, etc. Accounting standards still require auditability; the process to verify and link a digital signature with an authorized individual is paramount.
- Travel & Expense management. Travel and expense management poses unique challenges on a company as, generally, you have a broad segment of the employee population incurring otherwise reimbursable expenditures without going through the normal procurement procedures. Elaborate policies are therefore employed to constitute and limit what is and is not a legitimate reimbursable expense. Also, the process of obtaining reimbursement imposed on the employee requires a cumbersome process of completing reports and attaching supporting invoices and documentation, as well as obtaining necessary approvals, and thus, often delays getting company expenses into the system.

To address the old rules in the new paperless and integrated ERP system, a number of vendors have provided solutions which allow the capture of receipt images in real time. Some solutions enable travel itineraries be subjected to company policies before the expense is incurred in order to mitigate unwarranted or unsanctioned expenses, as well as collect digital invoices from air carriers, hotels, and car rental companies, and automatically parse charges on a single invoice into reimbursable and non-reimbursable categories.

- Planning and Forecasting. The dominant solution for planning and forecasting for decades has been Microsoft Excel®. Its ease of use and almost universal adoption have made it the predominant “go-to” product for planning, forecasting, and often reporting among SME’s. However, the same ease of use that has made Excel so popular, also makes it prone to error. Formulas can be accidentally overwritten with hard-coded numbers, linkages to other spreadsheets can be broken, references to out-of-date or erroneous data are not updated, and the attendant complexity that spreadsheets take on can make auditing spreadsheets for errors daunting. (See “Is Excel Dead?” in the April 2013 edition of The Issue). Several vendors have developed solutions that offer alternatives to Excel. Their software references current data, has built-in functionality that replaces Excel formulas, employs linkages which are native and cannot be broken, and generally addresses Excel’s weaknesses.
- Revenue Recognition. Revenue recognition has been a major and ever-evolving focus of the accounting professional. For decades, accountants have had to look at when and under what circumstance as well as over what period of time can revenue from a sales transaction be recognized for reporting purposes. Recent new pronouncements by the Financial Accounting Standards Board with respect to revenue recognition have been issued as late as December 2014. While still evolving, and far from comprehensive, several solution providers (in some cases the ERP providers

themselves) have developed solutions to aid in the recognition of revenue for financial accounting purposes. Most notably, the solution providers have addressed the area of subscription accounting, or that aspect of recognition in which revenue must be measured over a period of time.

- Niche areas. Necessity being the mother of invention, there have been a number of solutions developed which address the needs of specific industries, such as Contract & Project Management, Banking, Marketing Automation Software, and Security. Additionally, [CFOs2GO](#) has developed applications which address functionalities not developed by the ERP systems, such as complex Sales Commission Earning structures.

There are quite a number of other plug-in modules companies can consider, and the number is growing all the time. We have tried to address in this newsletter the most prevalent ones to consider. We can provide advice on other solutions on an as-needed basis.

Summary

Where cloud-based ERP systems really shine is with companies that have embraced a distributed profit model. Most of the major ERP systems can handle multiple business units simultaneously (e.g. subsidiaries, divisions, branches, business units, departments, and retail locations), do business in local currency if a foreign operation, and consolidate results for the company as a whole at the push of a button.

Implementing an ERP system with multiple modules demands a holistic approach, considering the desired additional modules at the same time as the ERP system, and prioritizing their application if implemented incrementally, as the paragraph below suggests. Even the simplest of ERP systems can take many months, including the assessment of business requirements, mapping existing business processes to ERP workflows, system configuration, report design, hardware, telecommunications upgrade, cut-over (aka “Go Live”), training, and system administration. There is hardly a single implementation that doesn’t go off without a hitch. More complex implementations with third party modules can seem daunting; however, a cloud-based ERP has tremendous benefits as I outlined. The secret to success is to minimize the glitches by planning, using common sense and bringing in experienced experts.

A specific way to minimize risks is to implement multiple systems incrementally. It’s important to determine what modules to implement with the right interfaces, and to coordinate and negotiate with vendors while integrating training and process changes over time.

Nevertheless, the conversion effort can quickly overwhelm existing staff who are trying to run the business; bringing in a consultant is often the quickest and most successful solution. Even if you’ve already implemented your ERP solution, an outside perspective can be useful in pointing out additional modules and shortcuts to success.

We at CFOs2GO have the unique capability of harnessing the Finance, Information Technology, and Recruiting / Staffing support under one roof. We take the burden of employing a new system off our clients, allowing them to continue to run their businesses.

Contact our Financial Systems and Reporting Group Leader, Chris Chillingworth, at (408) 309-1343, with any questions you may have.

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