Aberdeen *Group*

Beyond Bookkeeping:
Software Strategies for Small Business Growth

Business Value Research Series

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Executive Summary

Selecting software for a small business can prove a major headache — and selecting the wrong software can be even worse. A small business owner has enough to worry about without the migraine of application mismatch, a syndrome that plagues many in this vital part of the world economy. Application mismatch may not be easily diagnosed, but the symptoms are recognizable: growing pains, migration nightmares, blocked access to data, integration impairment, and often a general malaise stemming from knowledge that managing the software for your small business shouldn't be so difficult.

What do small companies need to know about their software choices to plan for the future?

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Did You Know

√ The U.S. has 4,678,371[1] small businesses with 1-50 employees. The importance of these small firms is reflected in the fact that they account for the employment of 26,547,222 people.

√ In 2002, 50.1% of the U.S.'s 112.4 million private-sector workers were employed in small firms.[2]

√ The only private sector employers that added jobs in 2001-2002 were those with fewer than five employees. They added 67,000 jobs to the economy.[3]

√ 99.8% of European enterprises are small businesses; 90% of those employ fewer that 10 people[4].

√ There are 19 million of these small business in Europe, providing jobs for 140 million people.

Generally, an accounting solution is the first business software package a small business buys. Unfortunately, this often happens with very little thought to the future. The truth is, even this very first decision should be strategic — the software should not be a throwaway. In order to prevent acquiring a disposable business solution, companies should consider some simple steps before purchasing.

Will My Business Application Support My Growth?

First, can the software grow with you? A poor solution choice may not stunt your growth, but it can make growth more difficult. Let's look at some questions to ask as you look for your business solution:

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[1] Small Business Administration. 2002 data. (www.sba.gov)

[2] Ibid.

[3] Ibid.

[4] Estimated by EIM Business & Policy Research; estimates based on Eurostat's Structural Business Statistics and Eurostat's SME Database; also based on European Economy, Supplement A, May 2003, and OECD: Economic Outlook, No. 71, June 2003. SMEs in Europe 2003. Observatory of European SMEs. European Commission. http://europa.eu.int/comm/enterprise.

Questions To Ask Your Solutions Provider:

Q
- *How easily can I add more users as my staff increases?*
- *What are the economic implications of adding more users?*
- *How will the software handle increased volume over time?*
- *Can I greatly expand the number of transactions and still have good performance?*
- *Will the software alert me if it has reached its capacity?*

One small manufacturer learned the hard way. The $1.2 million (annual revenue) company had used the same financial software since it was founded. After four years of use, data overload suddenly occurred, causing failed back-ups and corrupt files. The managers of the application were given no warning signals by the product until data could not be restored after a failure. The result was three months of corrupted financial data that could not be recovered.

The issue here is the total inability to scale to support increased volume and increased transactions.[5]

Migration: It's Not Just for the Birds

Migration and transition are two issues that can impact access to business processes that rely on automation and the potential downtime of the systems on which the applications run. *Migration* refers to the result of a product upgrade; *transition* refers to the move to another product all together. In both cases, you need to know that your data will survive intact and that after either the new revision or the new product is installed, you can access and use the data and it is still accurate. Even if you seek to dispose of your current business application, don't even consider disposing of your data.

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[5] The Small and Middle Market Enterprise: Addressing Today's Business Issues Through Technology. May

2003.

Q	*Questions To Ask Your Solutions Provider:*
	• *How does the solution provider insure continual access to the data I already have?* • *How long does an upgrade process or a software conversion take?* • *When can I access my computers during a migration or transition?* • *Does the supplier charge extra to convert my existing data into the new product?* • *Will any customizations I've made migrate or transition with my data easily?* • *Is there an articulated product life cycle growth path to support my planned (or unplanned!) growth?*

A small southeastern manufacturer of cable assemblies learned a painful lesson as it moved from one financial application to another. Because the new product would only allow for data entered at the time of installation and beyond, the first years of the company's financials would have to stay behind unless an expensive conversion and data re-entry project was undertaken.[6]

Be sure to inquire about migration and transition costs before you are even close to outgrowing your solutions!

Integration: Getting It Together

When a business, large or small, has a hodge-podge of disparate solutions, predictable problems can arise. But even small companies can acquire software with fairly seamless mobility between different applications that manage employees, accounting, or operations. There are two issues to be alert to: first, the time you spend switching between various applications to get the full picture of your business, and second, the labor cost and loss of productivity associated with re-entry of data. The first issue may just be inconvenient and a waste of time, but the second increases the risk of errors and inconsistencies. This risk stems from the manual entry and re-entry of data, as re-entry increases the risk of error.

Thus, a key selection criterion for application purchasers in small business is the ability to access and transfer data across business applications without repetitive data entry and without expensive maintenance and support costs. Alleviating any redundant data entry will save administrative time, decrease the likelihood of errors, and, reduce costs overall.

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[6] Ibid.

Because of a lack of product integration, a Headstart agency manager of 12 child development centers in upstate New York manually enters most employees' human resource data three times, which is both a productivity drain and increases the risk of error. To add insult to injury, two of the three unintegrated applications used by the manager are from the same vendor.[7]

If you are planning for a growing business, avoid entering any information more than once.

You Decide: Vote for Decision Support

Not only do you need to provide employees easy access to data, you need the tools to make that data meaningful and actionable. Business decisions impact your future and they must be based on accurate and timely data. Fortunately, today's solution suppliers include decision support applications which allow analysis and reporting in almost all business applications. When applications are integrated you can anticipate that the results of analysis are consistent as well.

Questions To Ask Your Solutions Provider:

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- *Does the solution provide the reporting tools I need to thrive and grow?*
- *How will I see the data I need daily on my dashboard?*
- *Can I easily change my view of the data displayed?*
- *What reports are included with the solutions? Do they meet my needs now? How does the application accommodate future reporting or analytic requirements?*
- *How hard is it to use?*

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[7] Ibid.

Flexibility: How Adaptable is Your Solution?

Your growth trajectory means change — the business processes you set in place when the company was founded may be holding you back. Whether you grow organically, through mergers, through the acquisition of another company, or if your company is acquired, your processes will change. Thus, the software you use needs to be flexible enough to support those changes. The ability to be flexible does not mean you should be rewriting code. It means that there should be user-selectable choices for screen presentation, work-flow, sizes of data fields, and the like that can accommodate change. How you conduct your business today may not be at all like how you will conduct it tomorrow, so ensure that you have the facility to change — and to change without a team of those proverbial rocket scientists.

Questions To Ask Your Solutions Provider:

Q
- *Will this software dictate how I run my business?*
- *Is it flexible enough to allow me to change and grow as I want?*
- *Can I change it myself or do I need to hire someone to do it?*

Accountability Matters

Good corporate governance begins at the inception of your company. You want to manage your company with good business practices and provide your customers and your employees the assurance that you are fiscally accountable. Solid business applications that support Generally Accepted Accounting Principles (GAAP) and Financial Accounting Standards Board (FASB) guidelines support accountability across the business and reduce your risk, both now and as you grow. If your company expands to become publicly traded, it will need to comply with Sarbanes-Oxley and other rules. It is far easier to plan for compliance now rather than band-aid it later. Seek applications that support GAAP and provide a foundation for auditable record keeping.

Questions To Ask Your Solutions Provider:

Q
- *Does my financial software support audit trails?*
- *Is it designed around GAAP practices?*
- *Can it alert me to overspending or irregularities?*

Instilling sound governance procedures from the beginning will prove imperative if your company is seeking to become publicly traded, become a candidate for acquisition, or acquiring a company itself. You have no idea where the future may take your business, but early planning and care in your investments in technology can ensure that you have solid underpinnings for the long haul.

The Life-Long View of Solution Acquisition

A small business life cycle has a concomitant technology life cycle. Generally, a company's business solution requirements change over time, becoming more complex, more sophisticated, more robust, or broader in scope and functionality. Your requirements may also change — you need functionality you didn't need before, or new technologies that increase your competitive potential arrive on the market.

Your technology solutions should have a growth path that is clearly defined in terms of its future ramifications on your business. Some companies, though they are small, have very complex business processes — the business applications then need to support complexity from the get-go. Plateaus should be defined so you recognize the next step or the next application. In addition, the ramifications of the transition should be articulated, with cost, time, and risk factors clearly delineated. The solution should address your specific requirements as a small business (rather than present a watered-down version of big business software) and should be flexible enough to allow you to conduct your business the way you want to. Wherever you are in your business life cycle today, seek out a solutions portfolio that will not only allow you to grow the way you want to, but will provide the technical foundation for that growth — and will support that growth for the entire future of your business.

Points to Consider

√ **Vendor Viability** —You want your solutions provider to be here tomorrow. While you cannot control that, at least do your homework and look for a reliable provider with a healthy balance sheet.

√ **Solid Support** — Look for the support you need where you need it at an affordable pricepoint. If you work with a channel partner that supports your organization, check references to find one you can really trust with your business.

√ **Global Presence** —You may be small, but you may have a global business presence quicker than you think. Select solutions that will support small business globalization!

Call to Action

- Take a long-term view of your business applications
- Look for good metrics early — you cannot improve what you cannot measure
- Make financial accountability inherent in your company's DNA
- Consider carefully the ramifications of integration, product migration, and solution flexibility as you consider purchases
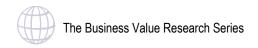- Plan for the future — not just the present

Author Profile

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Katherine Jones is a Research Director within Aberdeen's Empower the Enterprise practice. She focuses on the fundamental processes of business operations and strategy and the effects of technological change and innovation on these processes within the global organization, rather large or small. In addition to traditional enterprise environments, such as business, industry, and manufacturing, Jones addresses the application of enterprise solutions in education, the public sector, and the federal government.

A veteran in enterprise applications, she has been responsible for technical product marketing and strategic alliance management in several computer companies since 1984. Before pursuing a high-technology career, Jones was a university dean, involved in academic administration, research, and teaching. Jones is a frequent speaker and is widely published in the U.S. and abroad.

Jones has a B.S. degree from the University of Minnesota, and an M.A. and Ph.D. from Cornell University. She can be reached at katherine.jones@aberdeen.com.

Appendix A:
Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report include:

- *ERP in Small and Midsize Businesses: The 2004 Benchmark Report,* July 2004
- *The ABCs of ERP: An Executive Primer for the Middle Market,* July 2004
- *The Small and Middle Market Enterprise: Addressing Today's Business Issues through Technology,* April 2003

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

About
Aberdeen*Group*

Our Mission

To be the trusted advisor and business value research destination of choice for the Global Business Executive.

Our Approach

Aberdeen delivers unbiased, primary research that helps enterprises derive tangible business value from technology-enabled solutions. Through continuous benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help Global Business Executives accomplish the following:

- IMPROVE the financial and competitive position of their business now
- PRIORITIZE operational improvement areas to drive immediate, tangible value to their business
- LEVERAGE information technology for tangible business value.

Aberdeen also offers selected solution providers fact-based tools and services to empower and equip them to accomplish the following:

- CREATE DEMAND, by reaching the right level of executives in companies where their solutions can deliver differentiated results
- ACCELERATE SALES, by accessing executive decision-makers who need a solution and arming the sales team with fact-based differentiation around business impact
- EXPAND CUSTOMERS, by fortifying their value proposition with independent fact-based research and demonstrating installed base proof points

Our History of Integrity

Aberdeen was founded in 1988 to conduct fact-based, unbiased research that delivers tangible value to executives trying to advance their businesses with technology-enabled solutions.

Aberdeen's integrity has always been and always will be beyond reproach. We provide independent research and analysis of the dynamics underlying specific technology-enabled business strategies, market trends, and technology solutions. While some reports or portions of reports may be underwritten by corporate sponsors, Aberdeen's research findings are never influenced by any of these sponsors.

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