

The 7 hidden costs of ERP



You have a quote from your new ERP provider, so you know the costs for software, hardware, implementation assistance and training. Nevertheless, many companies are surprised with some additional costs that were not anticipated – and therefore not included in your plan and budget.

Most companies will easily recognize the most obvious system and implementation costs:

- Hardware expenses for the servers, printers, PCs, networking, etc.
- Software license fees: ERP, operating system, database, utility applications, etc.
- Ongoing cost of hardware and software maintenance, communications costs (ISP)
- IT staff, space, utilities, supplies
- Initial implementation, data conversion, training costs
- Tailoring and customization expenses for known changes

Note: in a Software-as-a-Service (SaaS) implementation, the up-front costs for most of the first four items are replaced by monthly fees – excepting communications, local printers, PCs and networking. Use these monthly costs (and benefits) over a reasonable period of time (5 to 7 years) to develop a fair return-on-investment (ROI) analysis.

To help you prepare a more realistic budget and plan, and avoid unpleasant surprises mid-project, consider the 7 items in the following list:

1. **The time your existing employees will spend** implementing the system, learning how to use it, and developing (and documenting) new procedures. For a successful project, you'll want the best people implementing the system and their time and effort is valuable. This is often viewed as no additional cost since these people are already on the payroll but there is a cost for what doesn't get done – or done as well – while they are working on the implementation. Additional staff or temporary help might also be required.
2. Similar consideration should be given to **the value of the executive sponsor's time**. The project must be at or near the top of the priority list for the company. Senior executive(s) must provide the proper leadership and motivation to keep the implementation on track.

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3. **A cross-functional team** implements the system by learning what the new system does and how it works, mapping the new functions and procedures into regular (and expanded) daily activities, conversion and testing, and documentation. This all takes time and attention from a wide cross-section of employees in all affected departments. Don't forget change management activities to build acceptance and cooperation.
4. **Retraining of employees.** In addition to the first round of training for everyone, there will undoubtedly be a need for "grad school" advanced training to get more from the basic functions of the system, additional training for advanced functionality, and reinforcement training for earlier lessons that might have been forgotten or not fully absorbed the first time around. New hires and people moving around within the organization will also need training to go with their new duties.
5. Budget for **future system tailoring or customizations.** Your business will change. Try to anticipate what you'll need (at least in terms of a dollar figure) for additional applications, follow-on consulting, and/or customization, additional training.
6. **Software upgrades.** You will be likely be paying an annual fee for support/maintenance which includes periodic updates to the ERP software. Updates don't install themselves (except perhaps in a SaaS situation where updates may be included in the monthly/annual fee) and some updates will include new functionality. You may want to plan for training and/or consulting to help you take advantage of the new capabilities.
7. **Additional training and consulting.** As you grow with the system, you may want to use more of the application capabilities than you initially planned. Budget for additional training and consulting to make this happen.

This may not be a comprehensive list of all the additional costs you may encounter, but including these kinds of less-obvious costs in your justification will make your ROI projection more realistic and prevent some rather unhappy surprises a few months or years down the road.

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