Choosing and implementing financial software – part 1

Introduction

In this guide, we take you through a series of steps to make sure you've thought about all the important areas of changing vendor and software package. By taking this structured approach, you can be sure that you've considered all the options before making that all-important change. Each step builds on the results of the previous one, so to make the most of this guide you need to spend time on each step to make sure you do it properly.

1. Review existing system

Businesses change over time. Indeed you may have first-hand experience of growth, diversification, acquisition or rationalisation in your own company. Each change factor brings its own level of complexity into the organisation and it's often the case that the business system gets left behind. During (and after) these flux periods it can difficult to ascertain whether your software is still fit for purpose. To make this task easier, we've listed some of the common indications that your business has either reached, or even surpassed, the limits of your current software. If you can demonstrate some or all of these characteristics in your systems, you can start to build a case for change.

Key signs it's time to change:

• It's slow. You find yourself waiting for the system to carry out routine tasks.

• It's restrictive. You're not getting the depth of analysis you need, based on restrictions in the software, e.g. staff and customers are demanding specific reporting that you can't provide.

• It's unreliable. Your IT department is inundated with requests for bug fixes.

• It's standalone. Lack of integration between systems means you have to re-key information. You feel compelled to double-check reports because the data might be out of date - and there's no easy way to share information with the rest of the business.

• It's too small. The software is unable to cope with increased staff numbers.

• It's not compliant. Your software cannot meet the latest regulatory requirements.

• It's outdated. Reconciliation processes for example are manual rather than automated. Or you can't take advantage of new functionality such as web-based workflow.

2. Build the case for change

A business case can be defined as a structured proposal used to justify commitment of resources to a project. Even if your business does not demand this formality, simply working through the proposed project's costs, risks, benefits and success factors will help you to stay

within budget, on schedule - and gain invaluable stakeholder support. We've split this section of the software selection process into a series of logical steps for you to follow, starting with:

a) Identify impacts of not changing

We identified indicators that your current system may not be up to scratch. Now you need to move these from gut feel and anecdotal evidence to make a scientific case for change. Here are some factors you may want to consider:

• Poor cash flow. Inability to manage debtors effectively can lead to high aged debt.

• Increased waste, decreased working capital and inability to meet orders are all indications of a failing stock control system.

• Profit erosion. Delays in processing project-based costs (e.g. timesheets and expenses) mean you can't calculate profitability, can't predict budget overruns, and can't bill the client on time.

• Resource drain. Days (and costs) are consumed in the finance department as staff spend their time performing mundane, manual tasks when they could be adding value to the business.

• Staff operate in isolation. Lack of integration leads to undesirable scenarios e.g. sales department still sell to a customer when finance are chasing them for outstanding payment.

• Reduced margins. Lack of system scheduling and forecasting capabilities mean that key resources (staff, stock, equipment) go unutilised, eroding margins and losing potential sales revenue.

• Costly mistakes. Too many manual processes, duplication and re-keying of data which is costly from a process perspective, causes errors, and means there is no "single view of the truth".

• Loss of confidence. People are frustrated by the software's processes and workflows which do not match their own, they are working for the system rather than the other way around.

• Unauthorised spending. This can arise through lack of control e.g. company policies are not being adhered to with regard to project, budgeting & cost approvals.

• High customer turnover. Delays in processing enquiries/orders result in poor customer satisfaction so they go elsewhere.

b) Gain stakeholder buy-in

Within any business there is rarely one person who is able to make a major IT investment decision. The decision makers will have differing requirements, varying levels of authority and contrary experiences with software packages. This can make them more or less inclined towards any business change, and software investment is no exception.

If you can identify the stakeholders, and also their current position with regard to change, you can tailor an approach which addresses their specific needs and concerns, and greatly improve the chances of your business case being approved. Take the time to review the emerging business case with the key stakeholders to get their input prior to requesting signoff – you don't want any surprises at a later stage. The following checklists will help you identify who should be involved:

Potential primary stakeholders

• Managing Director.
• Board of Director.
• IT Director.
• Finance Director.
• Heads of Department.
• Members of the Finance Team.
• Other 'heavy' users of the systems .

Secondary stakeholders may also be involved. They may not be part of the formal decision making process, but may have an opinion upon which they should be consulted.

Potential secondary stakeholders

• Staff who submit purchase requests, timesheets, expenses and make absence requests.
• Indirect users of the system such as staff who request information.
• Customers.
• Suppliers.
• Prospective customers.
• Auditors.

c) Identify financial benefits

The decision to invest ultimately rests on proving that the additional up-front investment is more than covered by the benefits that will be generated. Having a clear understanding of the impacts is a great place to start. Depending on the type of business in which you operate, there may be specific financial benefits, but many benefit types are common across all businesses. Some broad benefit areas are outlined below (there are plenty of others depending on the business you are in):

• Resource cost reduction. Time will be saved through the new system, reducing the need to recruit additional staff to cope with business expansion, or reallocating to other tasks.

• Sales impact. Increased profits are projected through better information relating to products or customers, or better stock availability.

• Working capital reduction. Greater system accuracy allows a reduced stock holding, generating working capital benefits.

• System cost reduction. The old system requires expensive hardware or support that will be reduced with the new system.

• Reduced loss and wastage. Greater accuracy reduces wastage in the system e.g. stock loss.

• Efficiency improvement. Reduced downtime of equipment, more efficient use of assets, improved throughput and margins. Care must be taken in each of these areas to ensure that the benefits can be directly linked to the system implementation, and that they are achievable.

For example, it is not valid to identify cost savings relating to resources if there is no plan for associated headcount reduction or re-assignment. Also take care not to double count – if another department is introducing efficiencies in the same business area as you, there may be similar claims in another investment case.

d) Uncover hidden cost savings

Having gathered the 'obvious' cost savings in your business case, it is now important to consider how the system will benefit the wider organisation. By revealing hidden inefficiencies and quantifying how the system will address them, we may find additional cost savings that can be factored in. We can see how this works in the following example:

Case study

A car rental company had grown so quickly it needed better software systems to manage its business. The finance director had set aside some time to discover reasonable benefits that could arise. He spent two hours looking for the classic benefits, such as time savings achieved through avoiding re-keying of data and despite this, could only find hard financial savings to cover about half of the project cost and was ready to give it up.

The operations director then joined the discussion and casually asked "will we be able to track all the mileages of the vehicles that we have on the proposed system?" After confirmation that it would, the operations director then explained that with accurate mileage tracking, he would be able to get the vehicles serviced at the proper intervals rather than overrunning the mileage and incurring penalties that currently equated to £165,000 per annum.

The moral of the story? A system that was assumed would benefit finance had uses that were far more valuable to other margin-generating areas of the business.

e) Calculate Return on Investment

When putting together a case for investment – or at least, having some influence over the decision to purchase – it is essential that the benefits can be articulated in financially recognized terms. Finance teams traditionally use three measures to assess what makes a good Return On Investment (ROI):

• Payback – How long will it be before the original investment is repaid through reduced costs or increased revenues?

• IRR (Internal Rate of Return) – The percentage rate of return on the incremental spend, over a selected time period, comparing all the benefits with the original cost (if the IRR is much better than the bank interest rate, this is a good investment).

• NPV (Net Present Value) – A £'s profit measure in today's terms, comparing costs out, savings in, and an annual cost of money.

With a combination of all three measures, it is possible to deliver a full ROI based business case for review by the stakeholders who will be making the investment decision. It is worth considering that the stakeholders may also be reviewing other cases for investment, and your case needs to be stronger in order to ensure signoff.

f) Demonstrate non-financial benefits

There are also additional non-financial benefits which will bolster a business case based on a solid ROI:

• Better access to information. Predefinable workflows manage the exchange of information, allowing for greater visibility of data and more efficient processing.

• Flexibility. For example, a web-based timesheet function would allow all staff to enter their time quickly and easily and remotely.

• Control. An approval system based on multi-level routing streamlines your control processes.

• Customisation. The system is driven by the customer's needs, and is flexible enough to be developed in line with their processes.

• Integration. Disparate data systems can be eliminated by integrating all your systems and bringing all the data into one robust industry standard SQL database.

• Access to key data. Distribution of reports and information to people outside of the traditional accounts department is quick and easy.

• Scalability. In a growing business, the software can keep up with the volume of transactions, growing numbers of users and changing business requirements.

• Compliance. You will meet regulatory requirements e.g. payroll, data protection, carbon emissions tracking.

• Staff engagement. Staff are happier with the new system, which has removed mundane tasks and duplication of data entry, and provides prompt expense payments.

Worked example

A department store proposes to spend £250,000 on an ERP software solution. The owners agree that benefits will accrue from reduced queuing time (1 in 12 people waiting would previously have left the queue), reduced stockholding, and better buying margins. Benefits totalled £18,000 per month, but the supplier would charge an extra £2,000 per month for the

service. Over a 36 month review period and a 10% cost of money… is this a good deal? By using the three key economic measures, we can calculate:

• Payback of 16 months (company standard is 18 months, so meets this investment criteria).

• IRR 89% per annum (fantastic, much better than money in the bank).

• NPV £249,000 (a solid increase in shareholder value).

It's now plain to see this makes sense and the decision to invest in the new financial system is now supported by the financial language that the board will understand. Be careful however, as many business cases fail at this stage due to a lack of confidence in the underlying benefit calculations.

If the savings or benefits are not fully researched, or exaggerated, this will undermine confidence in the overall ROI, and it will be rejected. These benefits alone may not convince an investment committee of the need to change, but they will definitely help tip a solid financial ROI over the edge, and should not be underestimated.

Overcome final objections

However watertight your business case, it's not uncommon to meet with further concerns. We've listed some of the most common of these here, along with some advice that may help you overcome this final hurdle.

We can't afford any downtime

Good vendors ensure that a business gets close to 100% availability during changeover. A stepped implementation process is designed to ensure that the new software can be actively used without the need for expensive parallel running so that the final stage becomes a simple 'switch over' from your old systems.

A tailored system's too big for us

Being a mid-sized business doesn't restrict you to off-the-shelf software. Good software vendors base their systems on standard modules which can then be tailored to your needs. The emergence of workflow and web-based technologies is also creating exciting new opportunities for mid-market businesses.

Our users like our system - we don't want to pay for costly retraining

Good vendors recognise that modern systems are relied on by a wide range of business users and so are designed to be as intuitive as possible.

For example, software based on the familiar Windows look and feel will help lessen the learning curve while customisation options (adding userdefined fields for example and configured to their specific workflows) will allow procedures to be picked up more quickly.

Browser-style interfaces and innovative Business Intelligence tools (e.g. dashboards) will all help, and with good integration tools, users may continue to use existing applications without even realising that they're linked to the 'financial' side of the business.

3. Source potential vendors

You've built the business case and gained funding for the project. Now it's time to see which software packages might suit your needs. (Of course, you may have already carried out some preliminary research as part of Step 2, in which case this section will act as a useful checklist).

Research tips

Make the internet your first port of call. Adding words related to your specific sector e.g. 'not for profit' or 'manufacturing' to generic phrases such as 'business software' will help narrow your search. Or, for a nuts-and-bolts comparison of software functionality, sites such as www.evaluationcentre.com may prove useful. Exhibitions and trade shows, for example, Softworld, will also provide an invaluable opportunity to speak to vendors face-to-face and to test-drive the software for yourself. The following list shows what to look for in a good provider:

UK-authored software

If your company runs its finances in the UK, you will need UK-focused software. Look out for confirmation that it's a UK- based solution.

Accreditations

Look out for vendors with strong ties into technically solid organizations such as those who've received accreditation from credible corporations like Microsoft, BASDA and the ICAEW.

Proven track record

Ask for customer case studies and reference sites for first-hand evidence that the vendor has experience of your industry.

A good second opinion

Independent assessments are invaluable to get a true picture of performance. Ask a consultant or an accountant for tips and advice – he or she is more likely to have had experience of a variety of packages, and will offer professional recommendations. Online reviews also offer useful comparisons and unbiased opinion on the functionality and reliability of the products available.

4. Send out Request For Information (RFI)

Having selected potential vendors, contact them with a Request for Information (RFI). An RFI is a formal document based on the list of requirements you put together in the business case. The quality of responses you receive at this stage is a strong indicator of the vendor's dedication to you if you become a customer. A good vendor should follow the following stages:

• **Acknowledge receipt**
This reassures you that your RFI is being taken seriously and is being dealt with by the right person within their company. This could be in the form of a letter or an email.

• **Confirm response date**
The vendor should also confirm the date when you'll receive the information. Make a note of this so you can see whether the vendor sticks to their deadline.

• **Clarify any questions**
A good vendor wants to send back the most comprehensive, accurate, and quality response possible to your RFI, so don't be surprised if they call you to clarify any particular requirements detailed within your request.

• **Return a clear and coherent RFI**
response within deadline Compare receipt of the information against the deadline. You should be looking for a vendor with timely responses throughout this part of the process.

• **Set up a scoring system**
Take your initial list of requirements and turn them into a checklist so that you can rate how well each vendor matches your needs. This helps you gain an objective overview about which solution is the 'best fit' for you.

• **Request vendor-specific information**
Ask specific questions in your RFI, such as: size of vendor's company; whether it is a UK-authored solution; how many different systems they offer; how many solutions they have installed similar to what you are looking for. Also ask to see case studies.

Pitfalls to avoid

Being aware of the major pitfalls at this early stage will help you avoid costly mistakes further down the line. We recommend you give the following a wide berth when looking at new software:

Proprietary databases. We mean those that do not make data readily available in an 'open environment' to a wide range of reporting and enquiry tools. You can never predict the ways you'll need to access and manipulate data, so ensure the proposed system does not lock you out.

Systems retaining a DOS heritage.
Any package still using DOS at its core is suffering from major lack of investment and is likely to be nearing its end of life.

Systems only available from one source
Services for such systems can be very expensive. It's far better to have a choice of provider, preferably with access to the source code. This ensures that you're not left high and dry when a sole distributor puts up prices or withdraws support.

Systems with limited/no integration capacity
Leading business systems should include middleware applications, capable of providing simple integration in real-time (or batch mode) without the need for custom programming.

Systems billing themselves as 'all things to all men'
The ideal accounts package has every module you need to satisfy all your business needs. But look for an author brave enough to admit that some business processes are best handled by third-party solutions and who makes it easy for you to incorporate these solutions into your chosen package.

Systems not endorsed by reputable organisations
With business software systems, look for quality marks such as the ICAEW. Software authors need to invest heavily to meet these standards and they therefore provide an excellent measure of the longevity of the solution (and indeed the support) you're buying.

Custom systems or packages with few existing (and satisfied) users
Relying on relatively untested software for some elements of your reporting is acceptable, but don't stray from fully proven software for your core processing.

Systems not allowing you to review and edit transactions after they have been entered
This is before they create an indelible audit trail. Even the most experienced staff make mistakes once in a while and it's essential that these can be corrected if the audit trail is to remain accurate.

Systems not having the ability to operate through a web browser
It is far faster and considerably more economical to give users access to software through a browser than it is to install software on each and every machine. Browser-based operation also provides the ideal environment for hot-desking and remote or mobile working.

Systems not expandable as the company grows
Modern operating systems and databases (particularly Microsoft SQL) are so inherently scalable that you should never outgrow your core systems.

Providers looking for a long-term relationship with your business should help you select the minimum needed to meet your current needs and help with upgrading and enlarging your system whenever you choose, without penalising you for taking a prudent approach.

5. Define shortlist

Once you've researched the options, make a shortlist of three or four providers whose products meet your needs. To help you decide, are some basic functions and capabilities that every vendor/software should be able to provide:

Cost-effective customisation
'Customisation' ranges from the basic (e.g. the ability for your staff to configure their individual screens and menus) to the more complex (report writing and bespoke software development). A good vendor will be able to advise on the level of modifications required and how much it'll cost. And do make sure that, even with customised software, you can take full advantage of routine updates to the standard software.

Auditability
By selecting a system that allows you to retain the full line-by-line detail of every transaction indefinitely, or purge selected items at your discretion, you can ensure that you have the transparent, full audit trail you need. With a good solution, you should be able to keep two years' accounts open at all times, allowing transactions to be posted forwards and backwards from the current trading period. Management reports should also be available 'as at' these future and
previous periods.

Ensure you choose a solution including detailed reports and powerful drill-down options for tracing individual transactions, and one allowing detail lines to be annotated for complete clarity. This helps to keep your accountancy and audit fees to a minimum.

Integration
Integration is essential for a good accounting/financial solution but varies significantly in its effectiveness from one solution to another. An extensive level of integration ensures that accurate information is widely accessible across the entire business.

Aim for a high level of integration – this helps eliminate repetitive tasks, reduces errors, and significantly increases productivity. In a good system, to help maintain the accuracy and integrity of your core data, transactions brought in from third-party systems are fully validated before they can enter the accounts.

Multi-currency and multi-language
Another basic facility, whether you're highly proficient in overseas trading or just dealing with the odd invoice. The system should calculate exchange rate differences for you and then pass full currency analysis into the nominal ledger for detailed management reporting. Ensure too, that the system can operate using an unlimited number of Western languages, with default settings for specific overseas customer and suppliers. This functionality should also extend to reports, which can then be printed in any language loaded onto your system.

Data protection
We know that software is the biggest security risk facing businesses today. But simply choosing the right technology can go a long way to protecting your business-critical data. A database built around Microsoft SQL Server for example comes with multilevel password protection, enabling you to exert exactly the right level of control over internal user permissions. It'll protect you from external security threats too - each time you complete a transaction within the accounts, it's committed to the database.

This means that in the unlikely event of a hardware or power failure, Microsoft SQL Server rolls back the accounts to the last committed transaction, securing the integrity of your data and ensuring no corrupt transactions remain.

Reporting
The keywords here are flexibility and integrity. You need to be sure that the system you choose enables you to spend your time analyzing information - not re-keying and checking data. Good solutions come with reports and business intelligence summaries built in. Your provider should be able to fill any gaps easily and cost-effectively, either through straightforward customisation or report writing.

In terms of reporting output, a solution that provides activity snapshots for each individual record is a good place to start, and some systems include sort keys enabling you to establish your own guidelines for system-wide reporting. Consider whether you will need to search, sort, or sub-total transactions, or analyse them to a heading, project, or cost centre, if you do, ensure the solution can do this.

Also make sure that the system takes into account the reporting needs of the wider business. Business Intelligence (BI) is the common name for a wide range of tools aimed at helping staff make better business decisions through easy access to timely, relevant information. Examples include KPI's delivered via online dashboards and Excel-based tools. A good vendor will help you understand the BI functionality that's right for your business.

6. Arrange demos

Having made your shortlist, contact the vendors and request a product demonstration. The aim here is to judge how well the solutions rate against your requirements. Here's a list of questions to jot down before your meeting:

• What database platform is the software built on?
Take into consideration the security, ease of integration, and scalability.

• How easy is it to access the information held in the system?
Real-time information is essential to allow any business to make informed decisions.

• Can the user change reports without any specialist technical ability?
You don't want to pay the vendor extra each time you or your staff want to amend a report.

• Will the software grow with my business and what is the upgrade path?
Don't lumber yourself with a system that dates.

Score each demonstration against your requirements to ensure you are shown how the solution meets them. Finally, ensure the vendor demonstrates the following:

• Credibility of past experience
The vendor needs to convince you that they have a wealth of experience, so don't be afraid to ask questions. For example, find out when they've last implemented software in an industry similar to yours. What challenges did they face, and how did they overcome them?

Before the initial meeting, try to find out some background information on the track record of both the product and the vendor, including their innovation ability, awards, or accreditations that have been won and any proof of their success.

• Professionalism
The vendor should give you confidence throughout the demo. The presentation should be clear and concise, and they should be willing (and able) to answer your questions as you go along. Expect to see the software demonstrated using real life scenarios with your data.

• **Thoroughness of approach**.
The vendor's representative should aim to understand the way your entire business works in order to find a solution structured around your core business processes. Expect them to ask you, and possibly other staff members, detailed questions about their working practices. This forms the needs analysis, the frame work onto which the solution is built.

7. Make final checks

With all this research under your belt and the vendors' demos underway, you'll probably be pretty close to making your final decision. But just to help you be absolutely sure, we've a final checklist for you. Ensure that your vendor of choice provides:

• **Pre-sales consultancy**
Every business is unique. Pre-sales consultancy enables the vendor to determine where changes need to be made and which solutions have the greatest impact.

By understanding your business from day one, the vendor is able to recommend solutions working in harmony with your staff, your commercial priorities, and your existing business routines. And, as your requirements gradually change, the vendor uses this knowledge to update your system in the most cost-effective manner possible.

• **Project management**
Project management varies greatly between vendors. The best providers offer a range of project management services for new installations and system upgrades. An allocated consultant works closely with your own team to ensure that every aspect is properly considered, carefully planned, and well executed. Pay particular attention to integrating your other business applications into your new system.

• **Implementation**
The main aim for any software provider should be to get your new system up and running in the shortest time possible, and with the minimum of disruption to your daily activities. Advanced planning is critical to this process and, following confirmation of your order, good providers put you in contact with a project manager, who agrees and plans a schedule for implementation, taking into account the time needed to transfer your existing data, and to configure your new system for maximum impact and ease of use.

Don't be afraid to ask questions. Who will be involved? Will you provide me with a detailed schedule complete with review dates and milestones? How flexible is the plan should our needs change partway through?

• **Software configuration**
When your new system is in place, experts should configure it to your precise business needs with minimal disruption to your business activities. Highly experienced technicians work closely with your project manager to ensure configuration proceeds to schedule. This same care and attention should be given to subsequent system upgrades and software enhancements.

• **Report writing**
Better software programs come with a variety of conventional (printed) reports and onscreen reports as standard, covering everything from debtors and stock levels to P&L and Balance Sheets. Both types of report should be configurable to meet any complex or unusual reporting requirements.

• **Training**
Every new system requires some training. Providers should propose a range of structured training programmes, including classroom, on-site, and one-to-one tuition in order to offer the training that best suits you. Good providers carefully tailor training schedules to ensure that individual members of staff are relaxed and confident with the functionality they'll be using on a day-to-day basis.

• **Post-implementation review**
After a suitable period of live running, reputable software providers carry out a thorough post-implementation review. This ensures that your system meets all your key objectives and is continuing to operate correctly.

• **Support**.
All software is supplied with an annual support contract, and may be made up by some or all of the following key elements:

• Automatic entitlement to updated versions of the standard software.

• Enhancements and new features introduced to meet legislative changes.

• Telephone support for help and advice

A word about... Support Good support is crucial for many reasons, not least because it minimises disruption and keeps downtime to a minimum. Ensure that your chosen vendor provides dedicated support teams that can be telephoned on normal office hours to help with questions on the workings, features, and functionality of your software. If these teams can be contacted via fax, email, and web then all the better.

Implementation: what to expect

While implementation methodology may vary from one vendor to another, each needs to demonstrate that they will follow a proven plan. To give you an idea of what to expect, we've highlighted the key stages of a good implementation plan here:

• **Business process review**.
The consultant works with you to review your business processes in detail, suggesting any changes if required.

• **System configuration**.
The system is configured to ensure that it matches your required business processes. This should not require any specialised technologies, but be a configuration of the standard software.

• **Solution workshop**.
This exposes key users to the software, giving them the chance to ensure that the requirements listed in the selection process are met.

• **Piloting**.
Once trained, key users should have the confidence to roll out what they've learned across the business.

• **Final customisation**
Any custom documentation or report writing required is also sorted out at this stage.

• **Go live**.
This is set once all key users have been trained and is the date on which the system becomes properly active.

• **Extended consultancy**
However smooth the implementation appears to have gone, providers should offer extended consultancy during the 'Go Live' period.

• **Project Review**
When implementation is complete and you've settled in to the new system, a project review ensures full acceptance of the software into your business (your provider should conduct this review as part of their service).

8. Place contract

Congratulations...you're nearly there. But for final peace of mind, it's well worth obtaining reference sites (accounts from previous customers) from the vendor. Visit them if possible, and ask them to describe how they benefit from the software, how reliable they think it is, how they rate its functionality, and how they rate the vendor's service. These opinions should serve to reinforce your preferred choice of vendor.

Once you've made your final decision, you will need to formalise the deal in the form of a contract. Beware of hidden costs, such as the vendor's expenses, mileage, and travel time charges and make sure that your requirements are part of the contract.

The next stage is to get the implementation underway. If you've followed the advice in this guide, this should be a straightforward process with no nasty surprises. Good luck!