

Sage ERP | White Paper

How to Choose an Accounting System



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How to Choose an Accounting System

Selecting the best accounting software for your organization is one of the most critical business decisions you face. We created this guide to provide you with the essential information you need to make the best decision possible.

You may be wondering, “Why would an accounting software company like Sage distribute a booklet that doesn’t promote its own products?” We know how important great information is to making great decisions. What’s more, we’re confident that the more people know about accounting software, the more likely they are to seriously consider—and ultimately choose—Sage accounting, ERP, and business management software solutions. In other words, our software solutions stand up to the most stringent selection criteria.

We at Sage look forward to helping you succeed in choosing the best accounting software solution for your organization.

Why Change At All?

Who should consider choosing a new accounting system? Do any of these describe you and your organization?

- o You’re a fast-growing company and need a system that can grow with you.
- o Your company has outgrown its current system.
- o Your processes have changed the way you do business, your system doesn’t track unique data, and much of your data and information about your business processes is stored in the heads of your staff.
- o You’re using unsupported or old software technology.
- o You’re using a PC-based spreadsheet (for example, Lotus™ or Microsoft® Excel) or an introductory accounting package (for example, QuickBooks®) and your business processes and data are stored in the heads of your staff.
- o You’ve got a legacy system—some “old iron” customized for your organization—that people may not necessarily like, but they understand and can use the system without much effort.

Many organizations stay with their current accounting system too long. It’s comfortable to use something that’s known and understood. There’s usually fear involved (or at least a strong apprehension) with switching to something new and unknown. Plus, there are significant time and resource issues, including the cost to change and the time needed to learn the new system.

But comfortable doesn’t always cut it—especially when it comes to the financial health and long-term success of your business.

In order for a system to meet your business needs, it should mesh with your existing business practices and adapt to technological innovations. Ideally, you want software that’s simple, intuitive, and closely matched to how you already do business. Be sure the system can:

- o Customize easily to fit the unique requirements and needs of your business, including transaction volume, global or international requirements, number of users, accounting complexities, and multiple company management.
- o Scale to the changing size of your business, including addressing increasing numbers of users and transaction volumes, the management of multiple companies, global expansion, and accounting complexities.

What a Good System Delivers

Properly installed and implemented accounting software can contribute many benefits to your organization, including:

Better decision-making capabilities—Sound accounting software can provide both a snapshot-in-time look at your organization, as well as the detailed reports and other data necessary for long-term strategic planning.

Improved cash flow—Cash management is essential for all businesses. Integrated billing, inventory, accounts receivable, and accounts payable allow you to manage that valuable cash more easily and efficiently. Better cash management provides your organization with more options for revenue-generating campaigns and long-term growth.

More accurate information—With fully integrated accounting software, you'll not only have more information at your fingertips, you'll have more accurate information. Unlike a manual accounting system, where a great deal of time is spent cross-checking figures recorded in different ledgers (and where the potential for errors dramatically increases) — in a good automated accounting system, information is entered only once and is used throughout the system.

More control—Integrated accounting software provides real-time access to your organization's critical financial information. This provides you with greater control and the ability to more efficiently manage the components of your business.

A foundation for growth—The right accounting software can help you as your organization grows: expanding as your business expands in size, in numbers of divisions or subsidiaries and internationally; allowing for additional users; and offering the kinds of reports and other business intelligence data required.

Do More Now

The challenges to successfully choosing, installing, and implementing new accounting software are many. But so are the opportunities—to gain greater control of your organization's financial affairs, to make better decisions, and to improve cash flow, among others.

The remainder of this guide describes the six steps to successfully selecting accounting software:

1. Involve the right people
2. Define the challenge
3. Assign a project manager for the process
4. Evaluate application performance
5. Choose a software vendor
6. Implement the system, by developing a training plan and a Phase 1 implementation plan

1. Involve the Right People

Your accounting software generates information used throughout most of your organization. That's why choosing new software shouldn't be delegated to a single department or manager. Participation across functional groups will help you select, implement, and use the best possible financial software solution.

There are, in general, five groups of people who should be involved in the selection process:

System Users

These are the people who will use the software daily. They need the software to be user-friendly, logical, and efficient.

System Managers

Managers supervise the system users. These system managers must understand the financial information and reporting needs required by upper management, and then direct system users about how to effectively use the system.

System Customers

Financial information customers can be found throughout the organization, in every department and at any level. These people rely on the reports, summaries, and other data generated by the accounting system to make decisions and otherwise manage their particular group or department. System customers may not necessarily understand accounting fundamentals, but they do require the information supplied by the software.

System Sign Offs

These are the people who must give final approval to acquire the system. Typically this group includes representatives from Information Systems (IS), accounting, and the executive management team. The company president or CEO may play a prominent role in selecting the system, or may delegate this task downward.

IS Staff

Representatives from the organization's IS staff should be closely involved in the accounting software selection process, and typically play key roles in the software's installation and ongoing upkeep.

2. Define the Challenge

Understanding your business's financial information capabilities and weaknesses is critical to selecting the appropriate accounting software solution. The more you know about the challenges you expect the software to solve, the more informed decision you'll make.

Questions to Ask***What are some of the challenges your organization is currently experiencing with its accounting system?***

Questions you might consider include:

- o Which manual tasks would benefit the organization by becoming automated?
- o Where in the accounting cycle are you experiencing the highest productivity loss and the highest number of errors?
- o How are inaccuracies negatively impacting your organization?
- o What information/reports are being requested that currently cannot be created or delivered?
- o How could your accounting solution integrate with other business management solutions?

Make a list of the challenges you're currently experiencing. Then create a second list of what you'd like to do but are unable to do now. This information should become your core list of requirements when evaluating new accounting software.

What TCO and TVO do you expect from the implementation?

The current business climate and the renewed emphasis on corporate accountability are driving the need to look more closely at the costs associated with technology investments. To that end, as you begin your investigation of accounting software solutions, you should estimate Total Cost of Ownership (TCO) and Total Value of Ownership (TVO). TCO is a financial estimate to help you assess the direct and indirect costs of your solution, such as licenses,

hardware, implementation services, maintenance, and training. TCO offers a statement on the financial impact of deploying information technology during its whole life cycle. In contrast, TVO depends on understanding how the system can impact the organization and help it reach its strategic goals, such as business growth, cost savings and improved efficiency. The TVO demonstrates how the software solves key business challenges and justifies the TCO.

Prioritizing Your Automation

Most organizations automate their business in the following order:

1. Word Processing and Spreadsheets
2. General Ledger
3. Billing / Accounts Receivable
4. Accounts Payable
5. Inventory
6. Sales Order
7. Purchase Order
8. Payroll / Human Resources
9. Job Cost / Manufacturing
10. Custom Management Reports

Five years after automating, companies were asked to rank applications from most to least beneficial. Here's what they reported:

1. Information for management decision-making (spreadsheets, custom reports)
2. Information for cash flow planning/forecasting (sales orders, purchase orders)
3. Billing and accounts receivable
4. Inventory control
5. General ledger
6. Payroll
7. Word processing

Notice that what most people consider basic accounting (general ledger) is way down the list of desired benefits. Information management, on the other hand, is at the top of the benefits list.

Other Questions to Ask

What about my current system and process is good?

You will need to determine what aspects of your current system and business process are worth

What data do I need to make strategic decisions?

This could include results from budgeting and modeling your business. It might include current gross profit by product, customer, or salesperson. You probably want to predict which customers and products are growing and which are declining. You may want to use financial ratios to measure your company's performance against competitors. Your general ledger can show key profit and cost-center performance against your budget to help you evaluate each group's effectiveness.

What do I need to forecast and control my cash flow?

Because cash is the lifeblood of a business, forecasting cash flow should be a key element of your accounting system. Sales order and purchase order tracking will also be invaluable, since they provide advance information about future cash inflow and outflow. Other elements that affect cash, which must be accurately monitored, include manufacturing processes, shipping, receiving workloads, and the movement of materials.

What information do I need to manage my assets?

Accounts receivable and inventory are often the principal financial assets of a business. Most of your company's cash is tied up in these assets, so small swings in the amount of either of these two can have a huge impact on your cash flow. Your payback from exerting more control over your assets is easily visible and immediately apparent.

What should I automate to grow?

Many businesses automate for the wrong reasons, or computerize functions that offer little payback. First, apply your resources to the areas with the most benefit to your bottom line. You can determine these areas through careful study and analysis of your accounting system.

How flexible can we be?

It makes sense to consider accounting software that has been created specifically for the general size of your business. Even following that general guideline, however, realize that few organizations use accounting software "as is." Most businesses customize one or more aspects of their accounting software. Those organizations that are most adaptable and attempt to integrate the most customization and flexibility will get the most out of their accounting software solution.

You shouldn't have to change the way you do business to suit your accounting package. Make sure the accounting solution you choose is flexible enough to adjust to your business requirements.

3. Choose a Trusted Advisor and a Project Manager

It's possible that your organization has the internal staff to successfully implement your new accounting system. It's more likely, however, that you don't have the people or time resources—or expertise—to devote to analyzing, purchasing, installing, and maintaining a system.

A trusted advisor can help considerably. Advisors have special expertise—they've been through the purchasing and implementing process many times. And while they charge fees, they can help your organization in three significant ways:

1. Evaluate and select the best accounting system for your organization.
2. Save time and money during system installing and subsequent training.
3. Get the most out of your new system based on the system's capabilities and your organization's requirements.

Some of the best advisors are accounting software resellers. Most accounting software products are purchased through resellers. Therefore, they can focus their complete attention on helping you automate your business systems. Software resellers have a valid stake in your organization's success, as they want to continue servicing your company in the future.

Finding a Trusted Advisor

There are many ways to find qualified accounting software partners. Here are a few proven ideas:

- o Ask your IS department for recommendations.
- o Ask colleagues for suggestions.
- o Attend an accounting industry tradeshow or seminar.
- o Review accounting publications.
- o Talk to your business associates, particularly in your industry.

The Ideal Advisor

The ideal advisor to work with is someone who has reviewed and installed accounting systems

at businesses similar in size and scope to yours. To learn what types of organizations an advisor has previously assisted, simply ask. Here are some questions to ask a prospective advisor or reseller.

Can the Reseller Provide References?

Ask for contact names and phone numbers, then call to learn as much as possible about the customers' working relationship with the reseller.

Can the Advisor Provide a Complete Service Package?

Critical elements of any software implementation are product training, technical support, and future maintenance and upgrading. Look for a reseller who wants to assist you not only with the immediate sale and installation, but also with long-term training and service.

Does the Reseller Listen Effectively?

This question separates the true advisor from the person peddling a product. To make the best recommendations for your organization, a reseller must first learn about your organization—including its current capabilities and those missing (but required) items or functions. Has the reseller attempted to learn as much as possible about your organization? Has the reseller spoken to more than one person within your company?

Does the Reseller Communicate Clearly?

Be wary of resellers who spend all their time discussing features—what a program does. Your focus during discussions with a reseller should instead be directed toward what benefits the accounting software can bring to your organization.

Do You Think You Can Work with the Reseller?

While purchasing accounting software is a business transaction, you'll be working closely with the reseller over a period of days, weeks, maybe even months. Hence, it's important to find an advisor who you enjoy working with, who is a good fit with your company's philosophy and culture, and who you feel will provide the necessary expertise and consultation in a professional way.

Be Sure Your Team Includes an Internal or External Project Manager

To ensure that your project meets its deadlines and deliverables, assign a project manager and give that person ownership of the project and responsibility for leading the project from inception to completion. The project manager should assemble the project team and make sure they work well together with the necessary resources to deliver a system that meets its strategic objectives and expected quality while adhering to the budget and meeting deadlines.

4. Evaluate Application Performance

Once you've selected a reseller or consultant to work with, take time to review specific software applications. Here's a secret most accounting software companies won't tell you: the vast majority of accounting programs perform basically the same functions. Naturally, how they do specific tasks varies greatly.

Does this mean you can't go wrong when it comes to choosing accounting software?

Not really. There are substantial differences among programs, what kinds of information they deliver, and the companies that create accounting software.

Here are several of the key elements to consider when reviewing various accounting software solutions.

The Company

Are you familiar with the company that makes the software? Is it a respected name in the accounting software industry? How long has it been in business? What is its vision for the future, in terms of its own products and the accounting software industry as a whole?

These are just a few of the many questions you should attempt to answer regarding the manufacturer of each accounting program under consideration. Obviously, you don't want a "here today, gone tomorrow" organization.

Scalability as a Product

Scalability is a fancy word for a simple concept: can your software expand as your business grows? There are two elements to a product's scalability. The first is scaling up—does the software manufacturer have a family of products that your organization can upgrade to over time in a logical, easy, and cost-effective manner? When considering future upgrades, ask these questions:

- o How easily/quickly will existing data convert to the new version?
- o Will the interface of the different software products remain the same? (The same interface significantly reduces the amount of training needed.)
- o What price incentives, if any, are offered to current customers who want to upgrade?
- o Will customized reports and other customized features run when the new software is installed, or will these be lost?

The other element to consider is whether the family of software allows for scalability out—can you add elements to enhance the existing software? The best software solutions allow scaling out by offering:

- o Numerous optional modules in addition to core modules.
- o Third-party products.
- o Availability to customize functions, reports, etc, including:
 - Ability to add multiple companies/divisions and consolidate data from them.
 - Ability to scale globally with a multilingual system that takes into account international customers, laws and currencies without additional customization.

On-Demand or On-Premises Installation

Until recently, you would purchase a software license, buy computers, and run the application in your office. With advances in Web technologies and growth in broadband access to the Internet, alternative deployment methods have emerged. Most evaluations of software should now include, a consideration of the question of whether the implementation of the solution should be "on-premise" or "on-demand."

On-premise solutions are installed and run on hardware on the customer's premises, which the customer must purchase and maintain.

On-demand software comes in two common types: Software as a Service (SaaS) and hosted. In a SaaS deployment, a vendor provides the app as a service over the Internet that is licensed by multiple customers. Hosted software is also managed by the vendor and accessed over the Internet, but it offers greater depth and breadth of apps.

On-demand solutions suit organizations that wish to benefit from lower up-front investments and prefer predictable, fixed monthly costs. On-premise is more likely to suit companies with an internal IT function and where a longer term TCO is a key requirement. Because it can be difficult to make a definitive deployment decision up front given the wide range of future variables, partnering with a vendor that provides multiple deployment options and the freedom to move to a different model in the future if needs change provides a distinct advantage.

Speed of Installation

For those that choose the on-premise option, installing new accounting software is a major undertaking. A key issue to understand is how quickly and efficiently the new software can be installed. In general, the longer it takes to install the software, the more costly the installation process becomes—and the more possibility for errors or other interruptions to your core business. Ask your consultant or software vendor how long it takes for a standard installation and what factors may increase or decrease the amount of time needed.

Ease of Use

Business in general, and accounting in particular, can be complex; you want an accounting solution that's simple, logical, and easy to use. Consider these questions during your review process:

- o How simple and easy-to-use is the software interface, the primary screens where data is entered or otherwise managed?
- o How easily does navigation take place between modules of the software?
- o What type of software documentation and training will be provided?
- o How strong are the software company's technical support and customer satisfaction departments?

What's Underneath the Iceberg?

Most accounting software solutions include basic components. Review carefully what a program doesn't have as part of its core modules; available options, while nice to have, can also quickly become expensive.

Attempt to discover what each program has "below the water." Are options such as reporting capabilities or invoicing features included in the core program, or only available as costly add-ons? Ask your reseller for help here; develop a complete understanding of what each program contains and how much each optional function will cost.

Other Factors

Other key elements to consider when reviewing accounting software solutions include the following:

Capacity—This refers to the software's limiting characteristics. What is the maximum number of customers, vendors, or inventory items it can handle? How many line items can be included in a single invoice, sales order, or purchase order?

Reporting capabilities—Does the software already have the capability to produce the reports that your organization requires? If not, can customized reports be created with a minimum of time and added effort?

Ease of input—You want a system in which information can be entered quickly and efficiently: full-screen editing, embedded help systems, clear prompts, etc. You also want a system that does not require excessive mouse use, slowing down entry of information by continually forcing the user to switch between keyboard and mouse.

Data validation—How good is the software at preventing mistakes from being entered into the system? The program should test for errors (such as duplicate customers and vendors, incorrect item numbers, and unreasonable amounts or dates). A good system also notifies the operator of unusually high quantities or unit prices for certain types of items and offers valid choices along with the notification message.

Error handling—Find out how well each program prevents unbalanced transactions, and how users are stopped from deleting or otherwise losing important data previously in the system. Some systems provide detailed audit trails for errors to track who is making each change.

Security—The degree to which sensitive functions and reports can be protected through

passwords will affect how the program rates in security. Ideally, you should be able to specify which operations each user can perform at any given time. For example, a system with strong security would allow you to specify that your accounts payable clerk could only print checks on Thursday afternoons beginning June 1 and ending August 30. Some systems will even provide a report to verify when the check run was performed and by whom.

5. Choose a Software Vendor

Now that you've reviewed the various accounting software possibilities, it's time to make a choice. It's important to realize that you're not only selecting an accounting system—you're choosing a company as well.

Previously we touched on what to look for in a software company. Here's a more in-depth look at the factors to consider when choosing a software vendor to use.

A Large Installed Base

How many organizations throughout North America are currently using the company's software? How many resellers does it have?

If the company you're considering has a large installed base of current users, it's an obvious sign that it is probably doing something right. People and organizations vote with their checkbooks; a popular product is a good sign that a company is stable and customer-friendly.

A large installed base also has a second benefit: third-party software manufacturers will be more likely to offer add-on software, worthwhile utilities, product training, and other benefits that you can utilize once you've installed the software.

Frequent Updates

Good software suppliers update their software frequently. They also make bug fixes available quickly and easily to resellers and customers. Before you make a purchase, find out if the software publisher has a maintenance program in place that gives you access to updates as they become available.

An Upgrade Path

This is similar to the scalability mentioned earlier. A good software company invests heavily in engineering and develops new product features and enhancements regularly. It stays abreast of new technologies and makes sure that its customers do too, particularly those customers with a quickly growing business.

A software upgrade—where you move to a similar but more powerful product—can give your company flexibility as it grows. Software upgrades are also desirable as they often cost far less than the retail price of the full program. Imagine purchasing a new car a year ago, and then seeing this year's model and wanting some of the new features. You can't have those new features unless you purchase the new model!

A good software manufacturer, however, will provide product upgrades at reasonable prices or as part of a yearly service agreement.

A Good Technical Support Team

Your consultant will be a good resource regarding technical questions or other issues that arise. But you'll still almost certainly rely on the vendor's technical support team as well.

Questions to ask regarding the vendor's support team include the following:

- o How many people are in technical support?
- o How quickly do they take calls from customers?
- o What are their hours of operation?

- o What options are available for after-hours questions or concerns?
- o What charges or service plans are involved?

6. Implement the System

Once you've chosen the vendor and product and purchased the software, it's time to install the solution. If you've done your homework, this is an exciting part of the process. Please note, however, it can also be a frustrating time as well! It will take time to adequately and safely install the new software without damaging or otherwise invalidating your existing system. Inevitably, there will also be a few kinks to work out.

What is the best way to make the implementation process a smooth and successful one? Follow these guidelines:

Postpone Modifications

One of the most common mistakes companies make is requesting extensive changes to packaged programs before installing and using them. Instead of trying to make a new system work the old way, wait until you understand how the new system works before attempting to change or customize it.

Provide Good Training

Even the best software can be a nightmare to the organization if people are not properly trained to use it. People are the key to the success of any accounting software program. Good staff training is essential and provides the information, practice, and involvement needed to get the most out of the software. Please note that different people within your organization will have different skills and levels of experience with computers; one training class will probably not be right for every system user. Ask your consultant or software vendor for a training plan that will get everyone up to speed (at his or her own level) quickly.

Keep People Informed

Frequent review meetings during the implementation phase will also help people become familiar with the new system. Don't surprise users—let them know when changes will occur. Also, keep your management team involved during the implementation process through meetings, attending the training, etc.

Don't Go Too Fast

Rushing implementation can cause mistakes and unnecessary tension. Time your installation and implementation of the new software as close as possible to your organization's slow time of year. When you are ready to convert to the new system, attempt to do so during a weekend to minimize business interruptions. You may even consider converting to the new system on a module-by-module basis, or running it in parallel with your existing system for verification purposes.

Alter Job Titles to Reflect Increased Responsibilities

The implementation process will almost certainly present one or more employees with a chance to perform exceptionally or exceed what their role has been in the past. Extra work—evenings, weekends—may also be required. Reward these efforts with a spot bonus and/or a promotion.

Plan for Ongoing Review and Evaluation

Plan to frequently review and evaluate the system based on desired criteria, such as one month following implementation, three months, six months, etc. Immediately inform your consultant and vendor of any challenges or questions. Document all changes and customizations made.

Five Mistakes People Make When Selecting Accounting Software

Mistake 1: Not doing enough homework

Analyzing and then selecting accounting software takes time and effort. Information is critical to selecting the most appropriate system for your organization. You're already a step ahead of most people because you're reading this booklet.

Mistake 2: Misunderstanding the benefits of automation

Automating accounting and related functions can save your organization considerable time and effort. However, computers can never replace human intelligence, judgment, or hard work.

Mistake 3: Ignoring hard-to-quantify benefits

It's difficult to calculate possible future gains in terms of increased productivity, better decision-making, and other factors after a new system has been successfully implemented. The results following the time-consuming selection and implementation of the best accounting solution can dramatically increase your bottom line.

Mistake 4: Passing the buck

Top management and other key personnel within the organization must be involved in the selection and implementation process. Never rely solely on a consultant's recommendations or input.

Mistake 5: Thinking accounting software is only for accountants

Accounting software will deliver results in the form of critical need-to-know information to every manager in the company. Don't select a system that won't provide detailed reporting and other company-wide information.

Suggested Planning Schedule

The following is a simple five-step process to successfully analyzing, selecting, implementing, and using a new accounting system.

Step 1: Preplanning

This includes a review of your current system's capabilities, strengths, and weaknesses, as well as the initial list of what you want to do with your new system but were unable to do with your old system.

Step 2: Intelligence gathering

Information is critical to sound decision-making. The more in-depth information you can obtain now about the various systems being considered will help you in the long run.

Step 3: Analysis

Careful review of the information gathered is necessary to make sound decisions. Please note that this step may include actual software demonstrations, visiting organizations with the software already installed, and perhaps even a visit to the software publisher's headquarters.

Step 4: Implementation

Once a software solution has been chosen, implementation should begin. This may last weeks or months, and include data conversion, user training, and other elements.

Step 5: Post-implementation review

This step includes the ongoing monitoring and review of the system. Is it performing as expected? What elements need to be modified, changed, or customized? What optional elements can be added to further enhance system performance?

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