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# Right-sizing ERP for SMBs

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## **Part 1: On-premises or Cloud?**

While watching the National Football League playoffs recently, a new car commercial caught my attention. Footage of various period-specific garages played while the narrator read off a list of successful innovators, each followed by the words “. . . started in a garage.” As I associated the names with their corresponding innovations, it occurred to me that their success as innovators weren’t the result of ideas but execution.

Likewise, the level of success a small to mid-sized business (SMB) achieves depends on its ability to execute—that is, its ability to gain a competitive advantage by means of product improvement, efficient processes, and increased visibility. In essence, it’s this insight into achieving success through execution that drives SMB adoption of enterprise resource planning (ERP) solutions.

### **The Inevitable**

Like a garage that accumulates various tools, SMBs typically acquire various software products as needed. As the business grows, it becomes increasingly difficult to integrate and access data, reconcile financials, track inventory, fill orders, and satisfy customers. At first, decision makers may try to solve the various issues as they arise by throwing more people at the problem, but sooner or later, it becomes evident that end users are only as good as their tools. The fact is, the SMB’s entire toolbox of QuickBooks and assorted spreadsheets must be replaced by an ERP solution containing the right tools for the job.

### **The Decision**

The decision to acquire an ERP solution should be seen as an opportunity to streamline all processes. To do this, the SMB’s declaration, “We can do this better/smarter,” has to become a question: “How can we do this better/smarter?” With that in mind, a preliminary assessment of the SMB’s core products and services must be undertaken. This assessment establishes functional and scalability requirements. The SMB’s functional and scalability needs determine its ERP options in terms of feasibility and affordability. From there, ERP product selection is more or less a question of where, on-premises ERP, or cloud ERP.

### **On-Premise or Cloud?**

On-premises systems have traditionally been used by larger operations because of the substantial initial capital investment. Also, because of economies of scale, larger companies prefer on-premises ERP because their total cost of ownership is usually less over the long term compared with a fee-based service—the same reasons SMBs have been shut out of ERP. The expense of procuring new infrastructure or employing IT staff for on-premises ERP is simply cost prohibitive.

Cloud ERP removes the barrier of access to technology that once only larger companies could afford. Cloud ERP is ERP software that is hosted in the cloud—in other words, Software as a Service. By centralizing IT infrastructure and staff, providers can pool resources and offer ERP services to subscribers for a low monthly or annual fee.

It's worth noting the security concerns with cloud ERP compared with on-premises ERP. Business data is intrinsically sensitive. It's understandable that most businesses prefer their data to be closely held, but the risk of losing control of that data has been largely mitigated. Most SMBs already outsource part of their business operations and are used to the idea.

### **Potential for Innovation**

Undoubtedly, SMBs' newfound ability to execute with affordable cloud ERP will drive innovation. As more businesses implement ERP solutions and processes are optimized, success will not be determined by how well the organization executes but how soon it innovates.

### **Part 2: I Know This Because Tyler Knows This**

"You had to give it to him. He had a plan, and it started to make sense in a Tyler sort of way. No fear, no distractions. The ability to let that which does not matter truly slide." —Fight Club

Regardless of the movie, this quote stands on its own. It's the reason for deciding to acquire an enterprise resource planning(ERP) solution. A small to medium-sized business (SMB) recognizes that innovation happens by execution, by focusing on its core and not getting distracted by what doesn't matter.

Tyler Durden is a character in the movie. He's an innovator and runs a small business that quickly turns into a thriving organization. Tyler is able to remain focused on execution while accommodating the different functional needs of his growing organization because he has a system that is customizable, flexible, and scalable.

### **Just Run With It**

During one of the dialogues in the movie, Tyler Durden tells the main character, Jack, "People do it every day, they talk to themselves . . . they see themselves as they'd like to be, they don't have the courage you have, to just run with it." Unfortunately, this statement holds true for many SMBs. The truth is, there are no longer barriers to such tools that once only larger organizations could afford. With cloud ERP, the only barrier is the fear of tackling the daunting task of selection and implementation.

Of course, the main reason for implementing cloud ERP is to maximize efficiency and visibility. However, SMBs that have the courage to just run with it aren't implementing cloud ERP opposed to on-premises ERP just because it's the more economical choice. They're implementing cloud ERP because it's part of an overall strategy. They want enterprise-level

services across the board—e-mail, storage, communication, and collaboration. In addition, SMBs prefer the cloud's rapid delivery of software updates, releases, and patches, so they can have increased functionality, ease of use, reliability, and security sooner.

### **I Say Never Be Complete...**

Tyler Durden says, "I say never be complete, I say stop being perfect, I say let's evolve, let the chips fall where they may." We've all been raised to believe that ERP was just for manufacturing, but it's not, and we're slowly learning that. Services see themselves as enterprises that need enterprise solutions. Many cloud ERP providers recognize this and offer modules of software for different functional areas. So SMBs don't have to buy a complete, integrated suite of ERP software if it isn't needed. In addition, because many services operate on a project basis, the cloud ERP's scalability allows SMBs to increase or decrease end users as needs change.

### **The Things You Own End Up Owning You**

"The things you own end up owning you," notes Tyler Durden. Many SMBs get this concept. Besides the required front-end investment of on-premises ERP, SMBs don't want to be bound by constraints like location, facilities, staff, and infrastructure. The truly innovative SMBs aren't concerned with being "big" or "growing": They know that ego is a big expense. They'd rather be agile and profitable, focusing resources on innovation and productivity instead of maintenance.

Obviously, when broken down into its basic elements, the decision to implement a cloud ERP solution makes sense for most SMBs. To execute their vision, SMBs have to just run with it. No fear, no distractions, letting that which does not matter truly slide.

### ***About the Author:***

Shelton Hill is an integrated program management professional in the defense industry. He specializes in cost and schedule analysis for software development and enterprise architecture. He has been recognized by the Missile Defense Agency for his contributions to the agency's Command and Control, Battle Management, and Communications (C2BMC) Program Office. Shelton is an analyst with Studio B.