

## Beyond Software: *How to Estimate the Cost of ERP Implementation Services*

This white paper outlines:

- ☑ The 4 costs involved in ERP software projects
- ☑ A definition of what is included in “implementation services”
- ☑ Guidelines for calculating a ballpark cost
- ☑ 8 factors that can increase your total price
- ☑ A comparison of Time & Materials versus Fixed Fee pricing models

[www.calszone.com](http://www.calszone.com)





## Part I: “I Need New ERP Software – Now What?”

### The Search Begins

There are many reasons companies begin the search for new accounting/ERP software. Perhaps you have outgrown an entry level package like QuickBooks, or your proprietary system is no longer supported. It could be that your existing software doesn't integrate with your other systems and you are drowning in double entry. Whatever the reason, the first question you will likely ask when researching options to replace your existing system is, “How much will it cost?”

With midmarket accounting software/ERP packages it's not as easy as finding a price tag on the bottom of a box. There are many variables that impact your final project price.

The only way to get a complete and accurate quote on the total cost of your ERP project is to work with a local ERP expert, called a partner or a VAR (value added reseller). But sometimes you need a way to estimate the costs in the beginning stages of your research to determine if it makes sense to continue the evaluation process.

“

I chose working with Microsoft Dynamics GP basically because of CAL - excellent company, excellent employees, excellent support, and we're looking forward to having a good relationship over the years.

”

Ileene Chernoff,  
IT Project Manager,  
Apple Health Care, Inc.

### The Four Costs of a Complete ERP Project

The mistake many companies make when initially trying to estimate the cost of an ERP project is only paying attention to the actual software license costs.

In reality, there are four elements to consider in your budget.

- Software License Fees
- Maintenance Fees
- Hardware
- Implementation Services



## Software

The actual license cost for midmarket accounting software is relatively easy to find. In the case of Microsoft Dynamics GP, the software list price is the same no matter who you buy it from and is published online by many partners. (For tips on how to calculate the software license cost read [“30 Questions to ask About the Cost of Accounting Software”](#))

## Maintenance Fees

Typically you need to add 18% to the software list price for the required first year maintenance fee.

## Hardware/Infrastructure

Your company may need to purchase a new server, upgraded workstations or SQL server licenses to run your new ERP software.

## Implementation Services

This area is the largest “unknown” in most ERP budgets, and is the primary focus of this white paper. Using our experience with more than 200 Microsoft Dynamics GP projects we will outline what is included in implementation services, how to estimate the cost, and how to avoid paying too much.

*Note: Our guide uses Microsoft Dynamics® GP as the software example, but the principles presented should apply to all midmarket accounting software products.*

“

We put together a dream list of technologies we wanted to implement. CAL Business Solutions researched our dream list realistically and brought to the table solutions that were forward-looking, could be implemented in a realistic timeframe and at a budget that made sense.

”

Jason Kloter,  
President, Kloter Farms



## Part 2: “What Am I Really Paying For?”

### Implementation Services Defined

The term “implementation services” can seem vague, especially if this is your first ERP software project. The list below provides an overview of services that are generally included in this category:

#### Requirements Analysis/Definition of Scope

Analyzing and documenting your specific business requirements, scope and project plan.

*(Note: Some partners charge separately for this and others roll the cost into the entire project..)*

#### Installation

Installing the software on your company’s servers and/or workstations.

#### Configuration

Setting up the software with your business information, users and personal settings.

#### Integration

Configuring the software to “talk to” your existing systems to eliminate double entry.

#### Data Migration or Conversion

Transferring data from your current system to the new system.

#### Customization

Changing the source code of the software to fit a specific need or business process.

*(Note: Customization is typically not included in an initial estimate as it requires a very detailed discovery process.)*

“

The best thing about Microsoft Dynamics GP is that the reporting is so easy; just navigating is very, very easy.

”

Cathryn Vogel,  
Budget Analyst,  
Connecticut Community Care



## Reporting

Creating or modifying custom reports and forms not included in the standard software (such as invoices and checks).

## Testing

Testing the system to make sure you are ready to “go live”.

## Training

Training the project team and end users on how to use and maintain the new system properly.

## Documentation

Documenting how your system is configured.

## Project Management

Controlling the entire project to make sure it stays on track and on budget.

*(Note: Some buyers do not like to pay for this service because they perceive it as “overhead”, but actually it is a critical element to the success of your project. Even if you do not see it listed specifically in your proposal, your partner has likely rolled it into the cost.)*

“

We have been a client of CAL since 2000. I love the flexibility of Dynamics GP. We’ve had more flexibility and more powerful reporting tools than we ever could have imagined with our old system. We have the flexibility to report from period to period to cross periods. It’s made a huge difference for our reporting capabilities.

”

Lina Irizarry,  
Accounting Manager,  
Connecticut Community Care

Also, remember to factor in the costs for ongoing support. Some partners, such as CAL Business Solutions, provide discounted rates for buying a block of hours or support contracts. While the software vendor may provide a limited number of phone support calls as part of the cost of your maintenance plan, most companies prefer to call their local ERP partner who is familiar with their system and processes.

This is a basic listing of services you should expect to discuss with your partner. Remember, just because your partner doesn’t include one of these services on their estimate, or use the same terminology, doesn’t mean it won’t be a part of the project. The best way to find an ERP partner who matches your budget, schedule, and goals is to ask questions, or request written clarifications, until you have a complete understanding of what is included and what might be an additional charge.



## Part 3: “How Do I Determine a Ballpark ERP Project Budget?”

Without meeting with an ERP partner to discuss your specific software processes and goals, you will only be able to calculate a *ballpark estimate* of the cost of implementation services. The ratios presented here will not provide an exact number, but will help you ensure your budget is not out in left field.

In general we tell buyers that the absolute minimum **software cost to services cost** for a standard ERP implementation is a 1:1 ratio. This means that if your software list price (before any discounts) is \$10,000 you would need to budget at least an additional \$10,000 for services – bringing the subtotal to \$20,000.

The first step is to calculate the software list price for your desired number of users or licenses, then at least double that price. If you are not comfortable with this number as a starting point, you either need to adjust your expectations or re-evaluate if your company is really ready for the investment of a midmarket ERP system. You could also consider financing or subscription-based software.

Now that you have a starting point, you need to consider additional factors that could increase that 1:1 ratio. Answer these 8 questions to better determine your anticipated software to services ratio:

“

You really understood our compliance and reporting requirements and found the right solution for us instead of just trying to sell us more features.

”

Brenda Martin,  
Finance Manager,  
Protein Sciences

### 1. How many users will you have?

If you have a small number of users (less than 3) you will pay more for services than for software. Conversely, if you have a large number of users (over 10) you may pay more for software than services.

### 2. How much time can your staff dedicate to the implementation?

If you are willing to be “hands on” during the process and complete tasks on your own (such as data entry and online training) it may reduce the number of hours provided by your partner and lower your services cost.



3. **How much customization or reconfiguration of the software will you need?**

In other words, how willing are you to change your processes around the new software if necessary? The more flexible you can be, the lower your costs will be now and in the future.

4. **Are you implementing core financial software only?**

Projects that have a 1:1 ratio are generally referred to as “vanilla” implementations of the core financial modules (General Ledger, Accounts Payable, Accounts Receivable, Bank Reconciliation, Invoicing).

5. **Does your company require distribution or supply chain management?**

Companies with more complex distribution and supply chain processes (inventory, purchase order processing, sales order processing) should budget at least a 1:2 ratio.

6. **Can you supply (or list) all the reports and documents you need the system to produce?**

If you need many reports or forms that are not included out of the box, and you want your partner to set these up for you, this may result in a higher cost. We recommend using as many out-of-the-box reports as possible for the first month or two as this can eliminate the costly changes of reports because “they are not like our old ones”.

7. **How much data conversion or migration will you need, and who will perform this work?**

The most obvious way to minimize your costs for data conversion is to bring only data you *need* to use often into the new system. If you require extensive data conversion with manual data entry it will increase your services costs unless your staff (or temp workers) can complete the work. Most companies keep their old system running and accessible for several months to access historical data rather than bearing the high cost to migrate it.

“

I just have to say I love how smoothly Great Plains had helped make our year-end closing this year. Just, everything closed up perfect, couldn't complain at all.

”

Joel Smith,  
Staff Accountant,  
Santa Fuel, Inc.



## 8. How much training will your staff require?

Do you have an experienced staff that is open to learning a new system? Training can be significantly impacted if the users being trained have little or no experience in similar systems, or are resistant to change.

If you aren't sure you qualify as a "vanilla" implementation, we suggest you budget at least a 1:1.5 software to services ratio to make sure you are in the ballpark, and then you can work with your partner to explore ways to reduce the cost. It is always better to find that you are paying less than you expected, rather than *more*.

This undoubtedly leaves some "gray area" to consider, but using the 1:1 or 1:1.5 ratio as a starting point will allow you to determine if your budget is even in the right ballpark. The best next step is to speak with an experienced local partner, such as CAL Business Solutions, to determine a more accurate cost for your specific needs.

Just starting out? Take advantage of our [Microsoft Dynamics GP Quick Quote Tool](#) for a free automated quick quote on software, maintenance and estimated implementation services.

[www.calszone.com/quick-quote](http://www.calszone.com/quick-quote)

“

The staff at CAL has been fabulous to work with and has provided some very innovative solutions for us. I was originally concerned that the CAL office was located so far from us, but using online tools, it's never been an impediment. Everyone is amazing - I just can't say enough great things about CAL!

”

Christine Huebert,  
Controller, PrideStaff Inc.





## Part 4: “Is There Such a Thing as a ‘Guaranteed Price’?”

There are two methods of pricing software implementations:

“**Time and Materials**” and “**Fixed Fee**”.

In a recent nationwide poll of Microsoft Dynamics GP partners, the overwhelming majority only quote ERP projects on a time and materials (or hourly) basis. Very few offer fixed fee pricing because there are so many variables in every ERP software implementation. Regardless of the pricing model, it’s important to do your homework and choose an expert ERP partner who bases their quote on a detailed discovery and years of experience so you can trust they will get the job done right and on budget.

### Fixed Fee Pricing: The Truth Behind the “Guarantee”

“

I chose Great Plains because of the Microsoft brand. I believe Microsoft is willing to spend considerable resources to advance the software and as a result the software will continue to evolve. I felt Great Plains was a solid investment.

”

Mark F. Smith, CFO,  
Oil Purification Systems, Inc.

It’s understandable that many buyers want the perceived “guarantee” of fixed fee pricing, especially in a tough economy. You want to know exactly what you will get and what you will pay for it. But fixed fee pricing is a misnomer. **You are never guaranteed you will pay one price regardless of what happens during the implementation.** You are only guaranteed that the partner will do what they carefully outlined in the proposal, with no changes. But as changes come up, and they always do, those changes will be considered extra work and you will pay hourly anyway, just as you would with a time and materials proposal. These changes are called “out of scope”.

On the other hand, a fixed fee price *will* protect you from getting burned by a partner who has no idea what they are doing. If they need to learn as they go along, you will not be stuck paying for the extra time it takes them to get the basic project done. But, who wants to work with a partner like that anyway?

Plus, most partners admit that fixed fee quotes have a built-in cushion to mitigate risk for the partner. If the implementation actually takes LESS time than anticipated, you will still be charged the full amount and pay for time you didn’t even use. So, while this may sound like a great deal



initially, you may not save money in the end with this pricing model. Second-time buyers of ERP software realize that getting a software solution that meets their needs and having a staff that can use it efficiently is more important than having a fixed fee. There are many honest partners out there who genuinely want to help you control costs and deliver superior service.

### Time and Materials Pricing: Pay Only for What You Use

When you are paying a partner by the hour, it may feel like you are just giving them a blank check to get it done no matter how many hours it takes. However, there is a more realistic way to look at this pricing model.

When CAL Business Solutions gives a time and materials quote we feel it can best be described as a “fixed scope” quote. We do a thorough discovery of your needs and present a detailed proposal based on this information and our experience with hundreds of similar projects. Our proposal includes a detailed explanation of what you will receive, and the estimated number of hours to complete the project. Any additional costs would be communicated to you in advance for approval.

While you are not guaranteed a certain price, as long as both sides stick to this plan, it should be the price you pay. If you are willing to pitch in more work along the way, or some type of customization proves to be less complicated than anticipated, you could pay even less.

Time and materials proposals are more flexible. If requirements change during the project, which they often do, the project manager has the flexibility to take budgeted time out of one area and move it to another. Or if you decide that you can do more of the work on your own you will not be charged for that time included in the proposal.

Let’s look at a sample estimate from CAL Business Solutions based on the time and materials method of pricing.

“

We have been on Dynamics GP for about three years. We are a different company since we started working with CAL. Our CAL consultant is a wonderful, patient teacher. He has sat at my side for hours, and, in fact, days as we went through a very recalcitrant bank reconciliation, solved the problem, patiently, quietly, going through everything we needed to know. I really feel very empowered working with him.

”

Cathy Moran, Owner,  
Moran USA, LLC



### Sample Estimate For Services:

Microsoft Dynamics GP Implementation Services		
Hourly rate: \$ 135.00		
Microsoft Dynamics GP Service Description:	Hours	Extension
Project management, kick-off meeting	8	\$ 1,080.00
Installation on server / up to 4 workstations	8	\$ 1,080.00
QuickBooks Conversion ONE company : Import Chart of Accounts from QuickBooks. Includes one (1) year of GL Summary conversion; Vendor Master file conversion. Using QuickBooks Conversion Tool where possible.	28	\$ 3,780.00
Application Setup & Training System Manager, Financials: General Ledger, Bank Reconciliation, Payables Management	24	\$ 3,240.00
Financial Report Training Note: Does NOT include duplicating current report formats. We will begin training using <i>your</i> report requirements and you will be responsible to continue the report work and complete.	8	\$ 1,080.00
Integration to external system (OPTIONAL)	TBD	\$ -
Forms and report modifications	3	\$ 405.00
Travel - estimated 5 trips	4	\$ 540.00
<b>IMPORTANT NOTE:</b> Training time is included for the <b>requested modules</b> . Training on other modules included in the <i>Microsoft Dynamics GP Business Essentials</i> package will be available on a <b>Time and Materials</b> basis in person or via remote connection.		
<b>Total Estimated Services:</b>		<b>\$ 11,205.00</b>



The key points to look at in this sample estimate are:

- ☑ The hourly rate is clearly defined.
  - The hourly rate of partners can vary considerably. Make sure you compare rates for implementation and for ongoing support.
- ☑ Hours are estimated *per service area* and not as a lump sum.
  - You want to know exactly what is included in your quoted price. If a partner only has a few hours included for training and you know you require more, this is a red flag.
- ☑ Estimate states what is included and, more importantly, what might be an extra charge.
  - Don't assume something is included unless you ask.
- ☑ Detail shows what tasks customer is responsible to complete.
  - Often buyers will agree to complete tasks on their own in order to lower the services cost. If you do this, make sure you have the staff available as this is one of the main reasons ERP projects go over budget.
- ☑ Quote includes travel time.
  - Miscellaneous fees such as travel costs are often not included in the budget but in the end they can add up to substantial fees.

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“

CAL responds quickly to support requests whenever there are technical difficulties, and the accounting department loves the software. It's a win-win.

”

Paul Wasilewski,  
Network Administrator  
Specialist,  
Connecticut Community Care

When you receive an ERP quote, it's a good idea to have an honest discussion with the partner and ask them to explain how you can avoid going over budget.



## Ready to Get Started?

We hope this paper has given you helpful information to begin budgeting for your ERP software implementation with confidence. Let's review what you can do to get started on your budget:

- ✓ Understand the 4 costs associated with your ERP budget.
- ✓ Decide how many users/licenses you will need.
- ✓ Learn the definitions of services so you are prepared to analyze partner proposals.
- ✓ Answer the 8 questions to find your anticipated software to services ratio.
- ✓ Determine the best pricing structure for your company's needs.
- ✓ Review the sample quote as a guideline of what to expect.
- ✓ Use the [Online Quick Quote Tool](#) provided by CAL Business Solutions to obtain estimated pricing for Microsoft Dynamics GP software, maintenance fees and implementation services.

“

My experience with CAL and their training has been excellent. I had some one-on-one training with Great Plains (Dynamics GP) when I came in because I had never used Great Plains before. Now I can use Great Plains for the type of reporting and the type of information that I need.

”

Jeff Beekman, CFO,  
Consumers Petroleum

For more information on the cost of accounting software, how to choose the right partner, and why ERP project go over budget review our previous white paper: [“30 Questions Every CFO Needs To Ask About the Cost of Accounting Software.”](#)

Download at: [www.calszone.com/30questions](http://www.calszone.com/30questions)

When these points have been considered, it's time to meet with CAL Business Solutions to take the next step.

Contact us at [sales@calszone.com](mailto:sales@calszone.com) or 860-485-0910 x 4.



www.calszone.com



**Business Solutions Provider...**  
*moving you forward.*

## About CAL Business Solutions, Inc.

Since 1982, Connecticut based CAL Business Solutions has helped more than 200 companies in 16 states improve business productivity with Microsoft Dynamics GP financial management system.

- ☑ Consistently ranked in the top 5% of business partners worldwide.
- ☑ 23 team members focused on Microsoft Dynamics GP—the largest GP partner in New England.
- ☑ Connecticut's only GP Training Center.
- ☑ In-house development team.

If you are looking for a Microsoft Dynamics GP Partner that will treat you fairly, and work with you to save money, call us at 860-485-0910 ext. 4 or email [sales@calszone.com](mailto:sales@calszone.com).

We would be happy to schedule a discovery call to review your needs and help you determine if Microsoft Dynamics GP would be the right fit.

Request a free automated  
[Microsoft Dynamics GP Quick Quote](#) at  
[www.calszone.com/quick-quote](http://www.calszone.com/quick-quote).