PERFORMANCE
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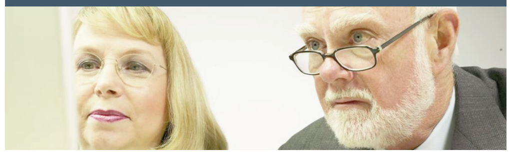

Making the Switch

Financial accounting and reporting software is instrumental to a company's critical activities, including preparation of financial statements, project accounting, billing, and payroll. Financial systems may also be key to functions such as management reporting; invoicing; timekeeping; and equipment depreciation, utilization, and maintenance. The system input and output needs are relentless and constant; the system cannot be "down."

Choosing the right software can be a challenge, especially in the case of smaller companies that may not have IT departments and often lack the technical and analytical skills to evaluate current systems and potential alternatives. For companies with less than $50 million in revenue, this decision may be left to financial managers, who understand the necessary outputs of a financial system, but may not fully comprehend the capabilities of their existing software and the costs of implementing something new.

Accounting software costs go beyond the money spent on software, licenses, and technical support. The financial output includes the significant labor and time that is required to prepare, "scrub," and validate data; customize the application to conform to company processes; modify company processes to meet the requirements of the system; design new reports; and train staff.

Because of the significant costs involved in the process, a company must determine if the expense of switching is outweighed by the benefits of a new system. Vendors will highlight the "bells and whistles," but will their offerings greatly improve the quality and timeliness of financial information or reduce the time required to execute transactions?

A case study involving Shoreline Grading Inc., a construction company in New Jersey with about $30 million in revenue and 150 employees in the peak season, provides a good illustration of how a successful decision can be made. In this situation, the company had a financial system with multiple modules to handle general ledger and project accounting, billing, cash management, and payroll. The system was purchased in 2001 by a former controller who left a host of unresolved issues. The new controller was not only confronted with financial data from the system that was often late and inaccurate, but the staff had little confidence in the system. In this case, the controller worked with Cohn Consulting Group to develop a solution based on a sound evaluation of the facts. The controller judged that the use of consultants was cost effective because it increased the expertise and resources on the effort while only temporarily increasing costs.

In determining whether a company's accounting and reporting system should be kept or if it is time to upgrade or switch to a new vendor solution, managers should follow a process that encompasses the following core steps: validating the problems/issues; developing a process for identifying a solution; and implementing the solution.

Validating the Problems

The first step is to log staff observations and complaints about the current system into the following categories:

- Data deficiencies
- User dissatisfaction
- System-level issues

Cohn Consulting Group developed a solution based on a sound evaluation of the facts.

For Shoreline, one obvious conclusion reached after the list of observations and complaints was compiled was an immediate need to have a systems administrator control user access and privileges. The director of corporate operations was assigned the role.

Identifying a Solution

Once the "pain points" are determined, the next step is to identify the correct process for developing the solution. In the case study, the company took a unilateral decision-making approach the first time around. To improve the current situation, the following guidelines were followed:

- Get owner/senior management buy-in.
- Be realistic: identify management's constraints.
- Avoid analysis paralysis. It is important to be respectful of people's time. The objectives of the effort should be precise and the time commitments explicit.

Phase 1: Analysis (Month One and Two)

- Understand the scope of the problem. Document the workflow and roles and responsibilities for each of the functional areas.
- Understand what's "broken." Having identified the issues in the construction company case, the team members were asked to separate organizational and process problems from system problems; and to separate training problems from system problems.
- Know the key factors for success and failure. Having isolated what needed to be addressed outside the system, the team members were asked to critically review their list of systems limitations and develop a prioritized list of systems requirements.
- Make a final list of system "must-haves." The master list should be reviewed by the team to identify what is essential from the accounting system or the system vendor, and what, if necessary, could be handled by a process workaround.
- Don't solve one problem and create another. In the case study, with the composite list in hand, the team considered issues that crossed over functional areas or pertained to the system as a whole.

Phase 2: Evaluation of Alternatives (Month Three)

At the construction company, by the time the team had completed the analysis, the number of complaints regarding the current system had dropped significantly. One reason was that the complainers were now the problem solvers. In addition, their analysis revealed that the system was often the scapegoat for process or training issues and the level of frustration had decreased because people were now optimistic that something was being done.

The next step is to evaluate alternative solutions.

- Know what your options are. Since there is a host of accounting software solutions, develop a short list, which, of course, needs to include the incumbent system.
- Vendors. Meet with vendors and receive demos on the new software. Evaluate if or how the applications address the "must-haves" list.
- Users. Talk to users of the software options on the short list. Interestingly, in the case study, the most positive responses were about the company's current software.
- Benefits need to outweigh the costs. The team concluded that none of the software alternatives offered an appreciable advantage over what they had.

Phase 3: Recommendation (Month Four)

The final team-developed recommendations that were made to Shoreline's owner were:

Near Term:

1. Upgrade the current software to the latest version the vendor offers.
2. Have the vendor conduct in-depth training for system users in each functional area and for the newly appointed Systems Administrator (and a back-up, who needed to be identified).

Longer Term:

3. Develop policies and procedures for each of the functional areas to address the deficiencies that were identified in roles and responsibilities and process workflows.
4. Bring the payroll function back into the financial system to reduce the expense of cutting the payroll and to improve the quality and timeliness of labor data for project accounting and management purposes.

Implementation

At Shoreline, the owner, who had anticipated having to make a significant investment in new software and significant disruption in daily financial activities, was pleased with the resolution. Since they were involved in the development, the users were also satisfied.

Lesson learned: If a company conducts an in-depth analysis, takes a team approach and uses a reasonable time frame, the software analysis will be highly successful.

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