

# HOW ERP SOFTWARE INCREASES THE VALUE OF YOUR BUSINESS



## FROM AN ACCOUNTANT'S PERSPECTIVE

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# THE PROBLEM

Today it is safe to say that all businesses, large or small, operate using some type of software. The fact is, in the competitive globalized landscape we live in, all businesses (especially small) need to be faster and sharper than the competition. Historically, businesses have stayed ahead of their competition using differentiators such as excellent customer service or value pricing; but today, technology, productivity, and data are what help businesses win.

Enterprise Resource Planning (ERP) software is business management software. It provides a system of integrated applications used to manage and automate several back office functions associated with human resources, financials, inventory, order processing, customer management, and more. In short, an ERP provides businesses with a single interactive management system with built-in analytics. Traditionally ERP software has been primarily used only by large corporate or enterprise businesses due to costs of installation and maintenance. However, globalization and technology advancements have prompted small and medium-sized businesses to adopt ERP systems as well.

GLOBALIZATION AND  
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ERP's are increasingly used by small businesses in order to streamline data across departments to enable better decision making and enhance productivity.

It's easier to illustrate the benefits of how ERP's can increase the value of a business by looking at characteristics of small and medium-sized businesses (SMBs) without such technology.

# SMBS WITHOUT ERP SOFTWARE

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- Lack of communication, transparency, and centralization of knowledge. Usually, business knowledge is held by one or two senior employees or owners.
- Undocumented systems. Again, these systems or processes reside solely in the minds of few people. Business processes or systems would come to a halt without their physical presence.
- Key customer and vendor information is not documented. Once more, this information is likely restricted to the owner or a few main people. That means that these relationships become dependent on having those key people around all of the time.
- Lots of spreadsheets and paperwork. Without software, business owners are likely using legacy or manual processes (like paper order forms, and Excel spreadsheets) that involve heavy manual work and costly overhead to maintain.
- The use of several broken or separate systems. Again without a singular or centralized piece of software, business owners are likely left with a bunch of spreadsheets, or data that does not tie together.
- Human error is a regular occurrence. With so many manual processes, errors with customers, products, manufacturing, shipping, vendors, or employee data are bound to happen.
- Lack of reporting and insight. Though business information may be available, it being dispersed in several locations makes it difficult to draw insightful or data-driven decisions.
- Business owner or manager is overworked and feels trapped by their own business. Without the centralization of company knowledge, owners are relied upon for almost all day-to-day business dealings.
- Unable to focus on growth. There are only so many hours in a day. Business owners spend too much time on the operational aspects of the business and miss out on opportunities to expand to other markets.
- The thought of selling the business seems defeating. Though the owner may want to sell the business, they know it would be very difficult because their company cannot run without them.

# WHY THIS IS NOT SUSTAINABLE



Believe it or not, the characteristics outlined on the previous page are a common occurrence, many SMBs still operate this way. Besides the clear burden on productivity and costs that many of these manual practices put on businesses, perhaps the biggest detriment is the impact it can have on the value of your business in the future—especially for SMBs.

Due to the nature of a small and medium-sized business, it's not surprising that most have built their success on personal goodwill. Over the years, the business owner typically creates strong personal relationships with customers, vendors, and employees. Nine times out of ten, this is what allows an SMB to grow and thrive. However, the company soon finds itself so reliant on the owner that it becomes an impediment to growth.

The owners often find themselves spending all their time working in the business instead of on the business.

Personal goodwill is also detrimental when the owner manager goes to sell the business. Since majority of the company's systems, relationships and know-how is in the owner's head, it is common for a buyer to discount the purchase price and require that the owner stay around for a period of time to ensure a smooth transition. This transition does not always work well and can hurt the longevity of both the business and the deal.

Though personal goodwill is an important aspect in building thriving small businesses, having only the owner managing these personal relationships, processes, and systems is not sustainable.

# HOW ERP'S HELP

## 1. INCREASED PRODUCTIVITY & REDUCED COST



The biggest benefit of implementing ERP software, is the cost savings for a business. First and foremost, utilizing software will make your business more efficient. As a general rule of economics, with efficiency comes cost savings across the entire organization. Business management software means less paper pushing, more efficient transactions with your supply chain and customers, organized data, error and waste reduction, etc., etc.

ERP software will result in savings on labour and other company resources by making your business more productive and profitable. That means you can focus on your customers and sales instead of scrambling through your business processes—which brings us nicely to the next benefit of ERP software.

## 2. BETTER CUSTOMER & SUPPLIER MANAGEMENT



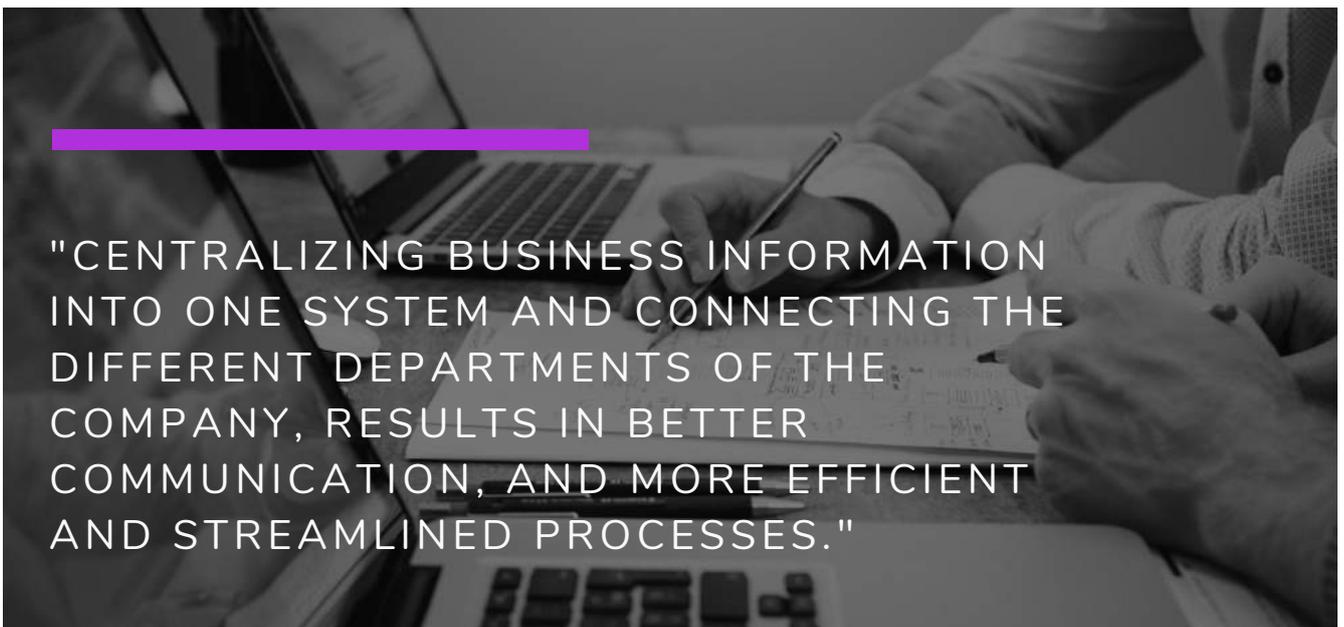
In regard to customer and supplier relationships, having a CRM or SRM (Customer/Supplier Relationship Management) in place will increase the value of your business tenfold. These systems allow small and medium-sized businesses to view and manage their customer data in real time. Every person in the organization will have access to all customer information to better serve your customers—from the salesman in the field and your customer service representative to the procurement specialists.

Plus, from a valuation perspective a company is worth more money if it can continue seamlessly even if the owner stopped showing up tomorrow. Having this information in your business management system helps to make this happen by automating certain practices and documenting the customer knowledge that is essential for making the business successful.

### 3. AUTOMATION: STREAMLINED BUSINESS PROCESSES

Overall, having ERP software is going to take business processes out of an owner's head, away from manual paperwork, and put it in a centralized system that their entire company can access. This is an invaluable benefit to any small business for many of the reasons we discussed earlier. Centralizing information for the entire business into one system and connecting the different departments of the company, results in better communication, and more efficient and streamlined processes.

From a sales perspective, automating and connecting purchases/orders with a business' inventory and supply chain eliminates countless hours of manual work and potential human error. Allowing your customers to purchase using an eCommerce platform is a significant avenue for growth and increased profitability. That's because growth requires more transaction volume and faster speeds—all of which can be facilitated through an eCommerce platform. Having a customer ordering portal or eCommerce platform can be the same as opening another physical storefront but with much less ongoing overhead.



Equally as important as streamlined customer purchasing, is a business management system's connection with your different departments. For example, if a business integrates their eCommerce platform with their ERP system, data will automatically be transmitted to the back end of the business so the order can rapidly be fulfilled and inventory levels and customer records updated.

Although an ERP could be blamed for reducing the labour force, what they really do is enhance labour productivity. Eliminating tedious manual tasks generally makes the labour force more satisfied as they can focus on more productive tasks. Employees do not have to switch between software or input data in multiple places reducing errors. In addition, the insights that are gained from centralized data makes the entire organization more productive.

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## 4. POWERFUL BUSINESS INSIGHTS & DECISION MAKING



ERP software gives business owners visibility into their entire organization. Information from all facets of business are pulled into one place where you can view and manipulate data anyway you want, in real time.

By tying together all customer and supplier information, business processes, and departments, owners are left with an insightful management tool. It is this tool that empowers owners to make informed decisions, and focus on growing and managing their business instead of just working in it.

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**"KNOWLEDGE IS POWER."**

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**"THE BOTTOM LINE IS: HAVING AN ERP IN PLACE WILL INCREASE YOUR MULTIPLE (OR VALUE OF YOUR BUSINESS)."**

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We've discussed the internal benefits an ERP system can have on productivity when it comes to running a business. However, a lot of owners are most interested in the benefits ERPs can have in succession planning or when it comes time to sell their business. We will go in-depth on these topics, but the bottom line is: having an ERP in place will increase your multiple (or value of your business).

The valuation of a company is based on a multiple—which is derived from a discount rate. A discount rate of 20% is a multiple of 5x and a discount rate of 10%, is a multiple of 10x. The higher the % discount rate, the higher the risk that is inherent in a company to reproduce its earnings. The calculation of a multiple is systematic but quite complex. Some things that would increase the discount rate (decrease the value):

- Key person discounts and personal goodwill
- A minority interest or lack of control
- Lack of marketability
- Other discounts such as portfolio/investment company, information access and reliability discount, restrictive agreement discounts and lack of diversification discount.

# PERSONAL GOODWILL CAN BE RISKY

As we touched on previously, for small and medium-sized private businesses, lower valuations are almost always driven by lack of marketability and key person discounts and personal goodwill.

Simple fact: an ERP system can help to eliminate or reduce key person discount and personal goodwill. We know successful small businesses are built on personal goodwill, but unfortunately, personal goodwill is not transferable.

When a company's revenues and earnings are too reliant and tied to the personal goodwill of the owner, those earnings can no longer be considered repeatable.

For example, if a business had earnings of \$100,000 per year the value of their company would be derived based on that amount. However, if the majority of those earnings or revenues are attributed to personal relationships or sales, the valuation would reflect this risk by using a higher discount rate which would result in a lower valuation. This is because there is a substantial risk of losing those revenues without the owner as part of the company.

Similarly, having a few key people with the business knowledge or customer and supplier relationships puts a business' revenues and profits at risk. In this situation, reliance on these key people is a large risk because without them the business may not be able to continue or repeat past success.

## KEY TAKEAWAY FOR ANY BUSINESS

For businesses of all sizes, a key takeaway is this: though you may have a very profitable and thriving business, if too much of your business knowledge, relationships, and processes are tied up or dependent on the current owner — a buyer will consider this a risk. Using software such as an ERP drastically reduces the risk by centralizing business information in a transparent system that can be accessed by anyone in the organization.

# A HAPPY ENDING FOR SMB'S

So what's the end game? For SMBs, ERP software has several benefits both for internal efficiencies and for when you are ready to sell. Going back to the first section of this whitepaper, we discussed the characteristics of SMBs without ERPs. Now perhaps it is only fitting to finish off with what an SMB with ERP software looks like.

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## SMBS WITH ERP SOFTWARE:

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### COMPLETELY TRANSPARENT BUSINESS

Knowledge (customer, supplier, etc.) can be accessed by anyone in the organization.

### BUSINESS RUNS LIKE A WELL-OILED MACHINE (WITH OR WITHOUT YOU)

Day-to-day business processes are handled through a central system.

### AUTOMATION & CENTRALIZATION OF INFORMATION REDUCES ADMINISTRATIVE BURDEN, ERRORS & PAPERWORK

Employees and management spend less time in the details and more time providing excellent customer service and focusing on business growth.

### INCREASED REVENUES AND PROFIT

eCommerce adds new revenue streams, internal efficiencies (error reduction and increased labour productivity), and saves on costs.



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## SMBS WITH ERP SOFTWARE:

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### **INCREASE THE VALUATION OF YOUR BUSINESS**

Reduce the personal goodwill discount (risk) by getting business knowledge (customer, supplier, employee, etc) out of the owner's head and documented in a system.

### **MAKE INFORMED BUSINESS DECISIONS**

With business information from all departments connected and reporting into one system, you will be able to draw valuable insights and make data-driven decisions.

### **BUSINESS OWNERS WILL BE ABLE TO SPEND MORE TIME WORKING ON THEIR BUSINESS, RATHER THAN WORKING IN IT**

Business owners deserve a vacation too. Walk away knowing the day-to-day can be handled without you and that (if you choose) you could be connected to all of the critical business information with the click of a button.



# SHERPA ERP

## THE BEST BUSINESS MANAGEMENT SOFTWARE FOR SMBS



ECOMMERCE



CRM



SALES ORDERS



INVENTORY  
MANAGEMENT



ACCOUNTING



BUSINESS  
INTELLIGENCE

Sherpa ERP is a cloud-based business management solution for small and midsize manufacturers. It helps businesses to automate workflows and make data-driven decisions. Key features include B2B e-commerce, inventory management, product configurator, customer relationship management (CRM), payment processing, shipping management and reporting.

Sherpa enables sales personnel to leverage features like the quotation builder and invoice generator to help build quotes and invoice customers for their orders. Shipping labels and order receipts are automatically generated once the order is confirmed and the payment is processed through its integrated payment gateways.

With built-in CRM capabilities, businesses can maintain centralized customer records and keep track of customer interactions. Sherpa also integrates with Quickbooks to take care of business accounting needs. It also offers a Purolator integration that provides shipping estimates from multiple shippers and enables users to generate pick up lists and print shipping labels.

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