**Business Systems: Enterprise Systems**

After completing this activity you will be able to:

* Describe the financial impacts of investing in an ERP system.

**Step 1: Individually**

*Review the following narrative:*

FitterSnacker has reached the decision point regarding an investment in an ERP system. While they believe there will be lots of benefits, it is now time to start trying to identify the financial impacts of this investment before moving forward with the project.

The ERP system will be expensive. It will be **very expensive** for a small company like FitterSnacker. It will cost a total of $10,000,000! The ERP system will create value for FitterSnacker over an extended period of time so the Accounting department will depreciate this investment over a period of 10 years or $1,000,000 per year.

The integrated database with the ERP provides superior decision making. From which customers to target for sales to where to acquire raw materials, the superior decision making of the ERP will provide countless benefits to FitterSnacker. From the sales perspective we believe that we will increase sales by 10%. This will increase our shipping costs by 10%. While we will make and sell 10% more goods, our purchase and production costs as well as direct labor costs will only increase by 5% due to efficiencies introduced by the ERP.

The accounting function at FitterSnacker has been a mess! With separate systems for order processing, order fulfillment, accounts payable, procurement, accounts receivable, payroll etc., etc., etc., FitterSnacker has needed a small army of accountants to keep track of all of the relevant information. As a result of the increased efficiencies of the single integrated database, what once required a small army of accountants will now only require a handful of accountants. We are projecting that our accounting and legal costs will be reduced by 50%. It is not only the accounting department that will realize a dramatic improvement in efficiency but many other areas including order processing, order fulfillment, production planning, and others will also experience an improvement in efficiency and we are projecting that salaries and wages will be reduced by 20%.

Finally, we use ADP for payroll processing. With fewer employees, we project that our payroll expenses will drop by 35%.

**Step 2: In Small Groups (2-3)**

Discuss the narrative and review the income statement displayed on the screen. Identify the line items that will be impacted by the implementation of the ERP system.

1. Starting with “Income”, what areas of the income statement will be impacted by the ERP. How will the ERP impact sales, cost of goods sold, gross profits and total income?
2. Working you way through “Expenses”, what areas of the income statement will be impacted by the ERP?
3. In terms of “Net Income”, what is the impact of the ERP?

**Step 3: Class Discussion (*unhide columns I-L*)**

**Step 4: Answer these short-answer questions (individually)**

1. A $10,000,000 investment in a computer system is a big investment for a small company like FitterSnacker. With $10,000,000 you could put a lot of new salespeople out in the field, expand manufacturing capacity or develop new products. Is a $10,000,000 a good investment or a bad investment for FitterSnacker? Explain?

**Step 5: Rate this activity (individually)**

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| --- | --- | --- | --- | --- | --- |
| **Ratings** | 1 Completely Disagree | 2 Somewhat Disagree | 3 Neutral | 4 Somewhat Agree | 5 Completely Agree |

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| **Statement** | **Rating (1 to 5)** |
| This is an engaging activity. |  |
| I learned a lot completing this activity. |  |
| This activity should be included in future classes. |  |
| Anything else you want the instructor to know? |