Oh God Not CHANGE!!

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As the great one once said, “I’m in the autumn of the year....”. Although those of us in the autumn of our years have seen our fair share of change, however when it comes to changing the ERP or accounting system for a company; ”well baby you ain’t seen nothing yet”. Yes, this article is about accounting systems, and it won’t get much dryer than that.

Over the last thirty years I think I have heard it all, with regard to excuses as to why change is not advisable “at this time”. From the brutally honest “I think changing systems will cut into the time I have for golf” to the sublimely ridiculous “our system has been serving us just fine for the last twenty-five years and it will continue serving us for the next twenty-five years “. With all credit to the old “buggy whip” metaphor, remember the last company left may be making the best buggy whip just before they die.

Well, today I am in the position of having lived in the shoes of the person responsible for implementing a new system. Yes, I was once a controller and then a CFO. When we started selling Comptroller™ (the predecessor of AVMAN® and VIRTUOSO®) in the late 1980’s we had a product that solved a very specific problem for a very small group of businesses. So, sales were easy, we had the “better mouse trap.” As we expanded out of that market, sales became more difficult. Now, we were confronted with controllers and CFOs that looked at changing systems as risky. As an aside, what we did not realize back then is that we were selling to the wrong people in the company. We should have been selling to other members of the management of the company. In many companies, we were confronted with CFOs who were responsible for the financial reporting and tax aspects of the firm, and we tried to sell directly to them, reasoning that they would be the final decision makers, rather than just a vote in the management group. What we failed to realize that the real benefit of our “better mouse trap” had more value to the Chief Operating Officer and the Chief Executive Officer of the company. If you want to know why I spent the next twenty years working for private equity companies rather than running my own company, I will leave it to you to ascertain. Those twenty plus years gave me much experience and insight into the myriad of mistakes managements make and what separates the winners from the losers, other than just luck. Well enough of this babbling, let’s get to the heart of this writing.

So why change. Well, there are a few primary reasons that can justify change. But before we dive into those, let’s qualify this analysis to those that are at least using an actual accounting system to record transactions and publish financial statements.

Therefore, we won’t delve into those businesses still using a modern-day abacus to account for their operations, aka Excel. Don’t get me wrong, I don’t know what I would do without it. I started using spreadsheets with the advent of VisiCalc, then Lotus 123, and finally Excel when Microsoft put Lotus out of business. Looking back, I think we witnessed a modern-day evolution. The lion (Lotus) killed the dinosaur (VisiCalc), and then was summarily shot by man (Microsoft) who now occupied the top of the food chain. For now, we will put our tongue back in cheek and look a little closer at why you would want to change accounting systems. Changing systems may result from many factors including changes in the way the company does business, growth, shrinkage, technological evolution, management challenges, and even product discontinuation just to name a few.

Let’s focus on the big three. Growth, technological evolution, and management challenges (a nice way of saying that, it is about to get much harder to run the company). Not that business changes, shrinkage, and product discontinuation are not important. They really are subsets of one of the big three.

First the easy one, technological evolution and the related product discontinuation. Many companies are using older software products that are approaching the end of their useful lives. A number of software vendors are putting the proverbial "lipstick on a pig" trying to extend the lives of their products in order to pull every last dollar of revenue out of them before they die. Let's just say that if you are using a system in this category, the sooner you get out the better. The last one on the dance floor without a chair…well you know how that goes. It takes time to evaluate systems and select the best system based on your company's needs. Therefore, start looking sooner rather than later, don't be one of those sitting in death's waiting room, enough said.

Second, let's focus on management challenges and its related business changes. This is really where VIRTUOSO and AVMAN shine. So, in the mid 1980's we were presented a problem. It seemed that many small ($5M to $12M in revenue in 1980's dollars) defense contractors could not pass pre-award surveys or defense contract audit agency (DCAA) audits. The problem was that there were almost no solutions available targeted at companies in that size range that could solve the problems facing them. The first problem was that the software systems were usually large and expensive, especially on the maintenance side. The second, surprisingly much larger, problem was that these small companies could not afford the staff trained to accountant for the work. Without getting into the gory details, although most small companies were exempt from the Cost Accounting Standards of the day, they were expected to perform many of the accounting tasks included in those standards. In the 1980s and 1990s the list of people that were properly trained to do this work was small and the salaries they commanded were large. Given that some of our founders were in the field of AI at the time, they considered putting a subset of that technology to work in solving this problem. Basically, we created the first expert system tasked with assisting accountants with the chore of cost accounting. If you want the details, buy me a beer sometime, and I will tell you the story. Throughout the intervening years we expanded this technology to solve other problems in fields with similar accounting problems. Roll that forward to today and we have AVMAN, the first expert system focused on providing accountants charged with delivering both financial reports and management information to the decision makers, in the field of aviation. AVMAN is focused on providing FBOs, aircraft maintenance providers, flight schools, and similar firms in the aviation field with a solution to these problems. For fear of repeating myself, I suggest you may want to read another article we wrote a few years ago called "Analyzing the Performance of your FBO".

Finally, growth is one of the more serious issues facing companies. Although, it is the goal most are seeking, the real question we are faced with "is our infrastructure up to the task". Since we are writing about change as it applies to accounting systems, we are going to focus on that aspect alone. In evaluating our financial infrastructure, we need to analyze both staff and system capability. Let's focus on system capability first. The factors we need to assess include size of the company, structure of the company (single organization, parent-subsidiary, or even multi-subsidiary), the number of lines of business (or product groups), how the company is going to assess performance, does the company use budgeting, and of course most importantly industry specific functionality.

Size of the company is one of the first factors you should take into consideration. A company with $10M per year in sales will most likely need a different system than one with less than $1M in sales. There are not any good sales sizes we can use to categorize companies since needs vary. However, some of the key factors include the cost of the system (including any purchase, subscription, and maintenance costs), the number of people that will be using the system, the number of employees, and the ease of use of the system should all be considered when including a system on your evaluation list.

Structure of the company is also a key factor in choosing an accounting system. If you have more than one company, subsidiary, or location then you will need a system that has been designed to handle multiple entities. These systems should at a minimum allow you to easily import your key financial information from your subsidiaries or related companies/locations. You should be able to prepare consolidated and/or combined financial statements and other key business reports at both the subsidiary/location level as well as the enterprise level. Since many enterprise businesses also have common customers among subsidiaries or locations, there should be some method of integrating and managing the customer list without making the task an egregious one. There must also be a method employed to control the chart of accounts in use throughout the organization without making it impossible for the subsidiary locations to add accounts as they need them. For reporting purposes, you must also be able to relate the common lines of business among subsidiaries/locations. This must be flexible, since many companies are faced with the problems of integrating an acquired company. Some features of industry specific systems will also be an important consideration. For example, in Fixed Base Operators (FBOs) fuel pricing is often controlled at the enterprise level for some customers. When assessing systems for consideration you may find that many systems simply do not have the required features most enterprises require.

The number of lines of business/product groups and performance assessment heavily influence one another. They will both have a significant impact on system selection. For example, in many systems it is not possible to properly determine gross profit. Some systems have the ability to identify costs directly associated with a specific product (usually in the cost of sales section), however very few systems have implemented a method to handle costs shared among products or lines of business. Even fewer systems have implemented an allocation method to charge those costs back to the benefiting products or line of business. In an aviation business (particularly in an FBO) these costs can be significant. Therefore, simply showing these costs as overhead or indirect and not considering them as part of the cost of selling products may lead to incorrect assessments.

Budgeting is a key factor when managing a company for profitability. Afterall, if your managers have not been provided targets they need to reach, then it is difficult for both them and you to measure their success. One important management design when you have more than one manager is to provide each one with a budget for the year. Now in order for this to be useful you need two things from your accounting system. First, it must have a way to allocate those budgets back to a “line of business” or product group and second, they must provide reports that show actual expenditures to budgeted expenditures. That way both you and managers that are responsible for their own budgets can measure their performance each period.

Industry specific functionality is where the “rubber meets the road” as a differentiator in many systems. Quite a few accounting systems on the market are generic. They need to be in order to accumulate their mass markets. Some systems have been created in various markets that have been tailored to the needs of the businesses in that market. You will find those systems in construction, government contracts, and light manufacturing to name a few. Only two systems have been written to address the specific needs of FBOs. The first was a system written in the early 1990s and still in use today. It is getting a little “long-in-the-tooth” and is facing technical challenges as the world moves to the cloud. The second is AVMAN.

AVMAN is what is called a “vertical for VIRTUOSO”. MOSAIX, wrote them both. First, we completely rewrote Comptroller for the cloud to create VIRTUOSO, and then we wrote the aviation specific features and integrated them with the accounting system. Here is where it gets tricky. In order to make the accounting system really work for aviation businesses it needed to understand and operate in concert with AVMAN. If we had not been able to actually update the accounting system, it would not have been possible to create the seamlessness required. Since we control the accounting system, we can determine (with considerable input from our customers) both the initial set and the many new and ever-expanding features that this system will have. AVMAN and its accounting system are one. They communicate and exchange data behind the scenes with no need for a transfer of information/data from one system to another. This will eliminate the very likely probability of human error that can occur when transferring data. It also eliminates the extra time and effort required to perform such a transfer. It is simply not possible to create a good financial and management accounting system from two disparate products from two different companies.

Staffing. When it comes to the staff size and capability, the needs of organizations vary wildly. Very small one or two product companies need only an office manager or a small business bookkeeper. However, larger companies or those operating in a complex tax or financial environment need any where from a few people to a group of people. I don’t mean to be vague here, however the financial staffing needs of companies truly must fit the needs of their management and the demands of their stockholders.

Many small and medium sized companies face the issue of cost and capability when it comes to their financial staff. It becomes difficult to justify the overhead costs required to collect management accounting information within the organization. Although accounting systems capable of providing this type of management information are expensive to acquire, the real cost inherent to these systems is the cost of manpower they require. System specific training is needed and staff with specialized accounting knowledge is required. All this adds up to more than most small companies can afford. Well, we put that issue front and center when we developed AVMAN. A little earlier in this writing, we mentioned that some of the founders of the original company worked in the field of AI, specifically expert systems. Fortunately, one of those individuals helped create AVMAN as the first expert system focused on providing accountants charged with delivering both financial reports and management information to the decision makers, in the field of aviation.

AVMAN’s accounting system has been designed to allow the power of a management accounting system to be utilized by typical accounting clerks. We did this be creating EA our Expert Assistant. EA is an expert in cost accounting and also knows quite a bit about aviation. EA steps in to help data entry personnel perform the complex cost accounting allocations and transactions when required. EA prepares management accounting entries using its knowledgebase of fundamental cost accounting principles and the knowledgebase of the business which was created during the AVMAN Suite configuration. Utilizing both knowledgebases; EA guides the user so that information needed is obtained when it is needed. EA knows the difference between direct and indirect costs and also about control accounts, so it is very good at deciding where and how to allocate costs into subsidiary cost ledgers, and how to assemble like costs into control accounts in the general ledger. The user simply does not need to know how this is done since EA handles it for them. EA runs behind scenes to watch what the user is entering and asks for additional information when it needs that information to extend the data collection to the management layer. EA becomes the company's "specialized staff" and effectively helps reduce staffing costs. With EA, AVMAN will provide efficient, effective control and insight into your FBOs business operations.

This final statement is most likely going to get me into trouble but here goes…talk with any outside advisors including your existing CPAs, however, be sure that they do not have a vested interest in any one system. Unfortunately, some accounting firms have aligned themselves with one of the mass marketed systems and have either a direct financial interest or an indirect one in specific products. Yes, there are some that are aligned with our firm, but hey if we want to be honest about the assessment, they should also be off the list. If you do not have the internal staff necessary to conduct an evaluation, it may be best to contract with an independent firm that you do not currently work with to lead any evaluation.

So don't fear change, embrace it, for it is going to come. With a little variation on the words of Louis Pasteur over 150 years ago…it's not just chance that favors the prepared mind, but those that are prepared.