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## **Accounting Software vs EZ Business System (ERP)**

An overview of the difference between an accounting software with the complete Enterprise Resource Planning solution.

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**Making Business EZier**



Running a business using only accounting data can be very much the same as driving a car using rear-view mirror. The purpose of accounting is to deliver precise and dependable overview of monetary situation to interested parties. What this financial overview consists of is the stuff that has occurred in the past, in other words “history”. However, there are many drivers of business success other than just history of events that contributed to wherever you are at the moment.

Imagine you are running a warehouse. Numerous things are vital about a warehouse, with goods flow being close to the top of importance list. Generally, there are two things you want to avoid regarding goods flow.



First, you don’t want stuff to sit in the warehouse for too much time. Your goods are your invested money, and by allowing it to just sit there you aren’t making any money of it, which is completely opposite of what you should be doing. Also, if your warehouse is blocked with old junk nobody wants to buy, you won’t have much room left for useful stuff someone might want to buy, so in order to accommodate for these useful goods you must look for substitutions, such as renting more warehouse space. Which is again bad because not only you are not making any money on goods sitting in your first warehouse, now you are also increasing your costs by expanding into another one. I hardly need to say that if your first warehouse is clogged, you are quite likely to jam the second warehouse too, because the problem is obviously not in the warehouse space, but in the goods flow.

Second thing you want to avoid about goods flow is to have a continually empty warehouse, which can easily happen if you don’t make sure you have always enough inventory to satisfy your anticipated demand. If you allow your warehouse to sit empty, you are having wasted costs, because running a warehouse costs good money regardless of whether you get any revenue to make up for these costs, or not. Your warehouse should contain enough goods to satisfy current and imminent demand and to cover for any fluctuations that may occur in demand volume. This is called safety stock. To put it simple, if you run out of your safety stock, and you have unsatisfied demand which you can’t fulfill because your warehouse is

empty, you are not giving a predictable and consistent service to your customers, in other words, you are not reliable. Customers don't like doing business with unreliable suppliers, so they will simply go elsewhere.

These two are typical situations that accounting only, and therefore accounting software, can't really help you with. If you are hoping to find information on how to optimize your goods flow through your warehouse, to both meet the demand of your customers, and not accumulate quantities exceeding such demand, in financial and accounting reports, you are far better off joining Vladimir and Estragon in their wait for Godot. Accounting as a discipline and accounting software in general can tell you how much goods you have, what is their current value, even how the value went in and out of the inventory over time, but they aren't capable of giving you any useful information on how to really optimize your goods flow.

To optimize your goods flow, you need to answer several questions, such as what goods you need to fulfill the demand, how much of these you need, and when exactly do you need them. The first two are fairly simple. If your customer orders ten kilos of potatoes, you know exactly how much of which item exactly you need. The customer usually gives you a desired delivery date, so you also know when you need your goods. However, when is a little bit trickier than the other two.

Say that your customer wants their goods to arrive at 16th of February, you can't just wake up on 16th of February and remember there are some goods to be shipped. Shipping goods may be a lengthy process. If the goods are available in the inventory, usually the only thing you must take into account is how much it takes to physically deliver the goods to the customer. This is called shipping time. If the customer is in the neighboring city, it may be OK to ship the goods on the morning of 16th. If the customer is in the neighboring country, it may take a few days to ship goods. Also, you must take into account the time it takes for the goods to clear the warehouse once you release the order. This is called outbound warehouse handling time. Sometimes it may be as simple as forklifting an item off the shelf, and putting it onto a truck. Sometimes it may require additional counting, preparation, proper packaging, inspections, what have you, which may also take up to few days.

A more complicated situation is when you do not have any goods in your warehouse to start with. In such cases you have more variables to take into account. First one is how long will it take your supplier to ship the goods to you. This is called lead time. Because one of the worst things that can happen to a business is depending on another business, you can never be totally sure your supplier will really deliver your goods within the normal and expected time frame, and you must allow for these situations as well.

This is called safety lead time. Then you must know how long would it take for the goods to become available in the inventory once they arrived. This is called inbound warehouse handling time.

Things really start going bananas when you are not purchasing the goods, but are manufacturing them yourself instead. In this case you not only need to know these same variables for raw materials included in the manufacturing process, but also all sorts of things such as capacities of your machines, order of operations in the manufacturing process, time required to finish the products, and so forth. In any case, your job is far from easy, and betting such a business on accounting software only is a blindfolded long shot, if you are lucky.

If you serve hundreds of customers with tens of thousands of different items, just imagine kind of planning you need to do to successfully juggle between the fluctuating levels of demand and supply, yet never accumulate more goods than you can sell, nor running out of inventory at any time. Just ask accountants to help you with this, all you will get is a balanced one-eye-credit-other-eye-debit blank stare.

These kinds of issues are not handled by accounting software. Accounting is mostly about tracking financial perspective of past events, and accounting software will do exactly this, plus maybe one or two extra teaser features. ERP is all about planning (it better be, because ERP stands for Enterprise Resource Planning), and besides basic accounting, ERP software needs to take care of all of the above, and more. From accounting to planning, there is a long way.

What kind of software do you run in your company? Is it accounting, or ERP? If you run Microsoft Dynamics NAV, please don't say you have an accounting package. That would be the same as calling your Harley-Davidson a scooter. If you think it's a scooter, and you really need a scooter, then you should probably have bought the scooter in the first place. Or you can always come to me, I will readily trade my scooter for your Harley-Davidson any time.

To close this saga, I end with a rant. I hoped I would cover a little bit of the history of how ERP came to existence in the first place, but I got distracted by the details, as usual. I noticed that on my blog, long discourses such as this one usually go completely skipped by the audience, so I bow Japanese-style to all two of you who made it this far.

To arrange a demo, please call:

**Mr. Farhan Qureshi**

*Senior ERP Consult*

**Tel:** 02-671-0339

**Cell:** 055-545-1867

**email:** Farhan@ezwaretechnologies.com



**EZ WARE TECHNOLOGIES**

P O Box: 35013, Abu Dhabi, United Arab Emirates.

Sales: 02.671.0339 – Fax: 02.671.0361

Prod: 02.626.2327 – Fax: 02.626.2346

[info@ezwaretechnologies.com](mailto:info@ezwaretechnologies.com)

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