



The growth of low-cost and online alternatives is helping SMEs take advantage of enterprise resource planning technology.

By Maria Trombly

**W**orld-class enterprise resource planning (ERP) system vendors like SAP and Oracle offer software that helps businesses organise their suppliers, production and finances. But the price tag and localisation requirements put these systems out of reach for many Chinese firms and joint ventures. However, customers, partners and investors are increasingly demanding ERP systems so that they can have visibility into the production or financial processes of a company.

Lately, however, local vendors and international vendors have begun offering lower-cost alternatives. These include custom-made ERP systems, online systems accessed on a subscription basis and scaled-down ERP systems suitable for small- and medium-sized businesses. Even some multinationals are taking advantage of these alternatives and benefiting from lower costs, localised features like Chinese language and taxes and nearby training and support.

**Local ERP Vendors**

Two of these ERP vendors are Ufida and KingDee, which are among the fastest-

growing IT companies in China. According to Beijing-based CCID Consulting, Ufida had about 25 per cent market share in 2005, making it the leading ERP vendor here. "I think ERP in China is entering into a fast-growing period," says Xueqing Ji, General Manager of eastern China for Beijing-based Ufida Software. "We are very competitive on mid-sized solutions."

According to CCID, small and medium enterprises accounted for almost 70 per cent of ERP sales in 2005, and will continue to be a driving force in the next five years. Demand for ERP from SMEs is rising, and the next five years will see a compound growth rate of more than 23 per cent every year, the research firm predicts.

Take, for example, Shanghai-based S.S.I Auto Textile Inter Decoration Ltd. In 2001, the company saw a huge increase in business, says its IT Manager, Dow Road. But the company was still using manual processes. Customers started complaining and production was out of control – bad scheduling meant that raw materials were delivered either much too early, or too late. As a result, some finished products were sitting around in warehouses because customers didn't need them yet – and other products were held up.

After researching the alternatives, SSI decided to go with an ERP system from Ufida, which cost "several hundred thousand renminbi," Road says. A similar system from a foreign vendor would have cost eight times as much, he says, adding that the foreign systems, while more advanced than the domestic alternatives, wouldn't have met the specific needs of Chinese business.

Today, about 75 per cent of Ufida's customers are like SSI – domestic mid-sized firms. Another 15 per cent are joint ventures. However, the other 10 per cent are multinationals, such as Dow Chemical and Toshiba Machinery. "With the recent release of a new international version of a middle-enterprise-oriented solution, more and more factories set up by Global 500 enterprises in China are willing to use our products," says Ufida's Ji.

These enterprises mostly employ Chinese managers and often use Chinese approaches to inventory and finances. A locally-produced system is sometimes a better fit. In addition, many factories started out using Ufida for financial management.

Ufida was first founded in 1988 as a financial software company. Then, when these factories were ready to move up to full-scale ERP, sticking with Ufida made the transition smoother, Ji said.

**ASP Model**

For some small enterprises, even locally-produced ERP systems cost too much, and there's no capital to invest in the hardware and programmers to build their own from scratch. For these companies, an even lower-cost alternative is to subscribe to an online ERP system, accessible through an Internet browser. The software is owned

and operated by an Application Service Provider (ASP). The customer doesn't have to buy servers or software, and all upgrades and maintenance are taken care of by the ASP vendor. The downside, however, is that you have to use what the vendor provides – it's a one-size-fits-all solution.

One such ASP vendor is Virginia-based i1. "We came to China in 1999 because we saw great potential here," says Bosun Xu, Chief Marketing Officer of i1's Shanghai office. "The ASP model has proven successful in our overseas markets in Singapore, Taiwan and Korea."

One customer, Shanghai-based Genuine-PRC (S.H) Digital & Tech Co. Ltd., has been using the system for two years now. "The solution is designed for small-and-middle-sized distributors so it fits us very well," says Mike Ou, Genuine-PRC's IT manager.

The company, which has about 30 customers, has offices in Beijing and Guangzhou and warehouses in Shenzhen and Chengdu. Buying just the software and implementing it for all these locations would have cost several hundred thousand renminbi, says Ou. This doesn't even include hardware and maintenance, he adds. "And a foreign technology vendor would charge more."

Under a three-year agreement with i1, the company paid an initial RMB80,000 set-up fee, then RMB3,500 per month after that. Prior to going with i1, it used an out-of-date software system that had become difficult to maintain, required overnight data transfers from branch offices and

didn't provide real-time data. "We need advanced technology to manage the whole process to be competitive," Ou says.

The i1 system is a complete ERP platform, tracking purchases, sales, inventory and financial management. "We access the platform with an account and password through Internet Explorer," he says. "Data communication is much faster and more effective now and efficiency has improved. For example, we can see inventory and account receivables any time, which is very useful to make adjustments," he says.

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### Custom Build

Other ERP vendors are starting to look at ASP-based models as well. For example, Ufida has a department that is currently developing an ASP product.

"ASP focuses on small start-ups and is a rising trend," says Ufida's Ji. However, customers must adapt their processes to the system – they can't adapt the system to their processes. But i1 is working on making the system more customisable, and there are some upgrade patches available for users who have specific requests.

Flexibility is important not only because every company is different, but circumstances change constantly, especially in China. "I don't believe there is a one-size-fits-all solution to ERP," says Vaughan Marks, Partner at Shanghai-based Fusion Systems, which helps companies develop custom-made ERP systems. "So, too, the choice of ERP system needs to fit the scale and objectives of a business." Fusion writes custom ERP software for small- and medium-sized enterprises and assists the IT departments of big management consultancy firms like PricewaterhouseCoopers.

Building your own system can be even cheaper than renting it through an ASP, says Genuine-PRC's Ou, and some of his peers have already done so. "If we had hardware, we would do the same thing," he says.

ERP in China is facing unprecedented opportunity. "It's an interesting space," says Fusion's Marks. "Chinese firms have the luxury of being able to learn from previous experience elsewhere in the world. Unlike many foreign firms that are stuck spending large sums of money on inefficient legacy ERP systems because switching costs are so high, Chinese companies looking to implement ERP for the first time are well-placed to choose better technology at lower cost than their foreign counterparts to gain competitive advantage," he says. □

*Additional reporting by Wendy Yu.*



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