PAC White Paper

Insights from real-world case studies on companies implementing SAP Business One to fuel growth.

This white paper offers insight into the obstacles to growth faced by small businesses and how SAP Business One has enabled these companies to integrate processes, reduce manual tasks, and help to scale their businesses.

PAC spoke to small businesses from countries around the world including Canada, China, India, Mexico, and Germany. While each company's situation and needs were unique, the combination of an affordable, standardized enterprise resource planning (ERP) solution, along with the ability to customize and to install industry-specific add-on functionality, made SAP Business One the clear choice.

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1. INTRODUCTION

In this white paper PAC addresses the specific challenges faced by small businesses that are looking to grow without compromising profitability, and how these challenges can be addressed with the adoption of a modern business application. Based on a series of qualitative interviews conducted by PAC during the first half of 2011—including companies from India, China, Canada, Mexico, and Germany—this white paper outlines how small businesses who are looking to expand more aggressively are often held back by too many manual processes, outdated IT systems, and very often, a simple lack of the necessary IT systems.

The companies represented in this paper have deployed the SAP Business One solution in order to move forward with a business platform that can scale, support their business needs, and eliminate many manual processes. These selected companies generally reflect the diversity in the SAP Business One user base and are very different in terms of industry, size of operation, location, and regional coverage (see Table 1).

Table 1: Participating Companies

Company	Country of Origin	Industry	Revenue (*estimate)	Employees
Coral Beach Farms	Canada	Agriculture	$7 million	32 off-season, 500 during peak season
Hanan Grupo	Mexico	Distribution	$3.5 million	20
Venus Electronics	India	Retail/ wholesale	$15 million	150
Boan	China	Retail/ wholesale	$2.2 million	110
hhp (Home Healthcare Products)	Germany	Medical device products	$10 million	250

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2. PAC'S OPINION

In PAC's opinion, SAP Business One provides a solution that is designed for the small business both in terms of its application functionality and its ease of deployment. Because SAP Business One is a single application, it doesn't require separate installations and integration of multiple modules, thus making it is less costly for small businesses to deploy and maintain. During PAC's interviews, all customers interviewed by PAC were able to implement the solution in under two months either on or close to budget.

SAP has been successful in transferring many of its strengths (such as best practices, an integrated suite approach and industry-tailored functionality) from the large enterprise and applying it in a unique way to its portfolio of applications for small businesses, like SAP Business One. For example, the solution began as an integrated suite in 2003, which was a class by itself given its global localizations. Today, the first fruits of SAP's expansion into analytics and mobility solutions help SAP Business One offer built-in reporting and dashboarding capabilities and mobile sales solutions that are not available from most competitors. This is in sharp contrast to the multitude of local software packages that exist in all countries, which typically receive a low amount of investment and hence quickly fail to meet their users' growing needs. SAP Business One brings the best of both worlds to a small business; it is a solution designed for small business needs and at the same time provides access to the SAP partner ecosystem, and its various solution extensions and related services, along with the breadth of SAP.

When evaluating ERP solution alternatives, small businesses need to consider the following factors:

- **End to end integration across operations**. All small businesses have priority areas that should be covered by a business management application. Most commonly, these areas include financial management, inventory, and purchasing, with the possible addition of customer relationship management (CRM), reporting or specific industry functionality. Each company has it own set of needs, and pre-integration of these various modules, adaptable to those needs, helps to lower implementation and ongoing maintenance costs. It also generally brings a much faster return on investment thanks to standard processes that cut across multiple modules.

- **Customization**. While as many standard processes as possible should be adopted from a business application, the ability to extend or build for changing/growing business needs in a specific industry must not be overlooked. The ability to add user-defined fields and tables, as well as the ease of modifying and building new reports without the need for IT support, is essential. Another indicator of the ability to customize a vendor's business software is whether there is a wealth (or not) of industry-tailored solutions created by partners. A high number of solution extensions (particularly into verticals) indicate both a healthy ecosystem, and an ease to use platform for future development.

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- **Experience and long-term viability of the vendor**. Generally, PAC has found that small businesses become frustrated quickly with the lack of investment or innovation in solutions provided by local vendors. After the initial implementation, users are often left with outdated systems or little support for changes in their business, industry, or regulations. Thus, it is key that when a small business chooses a software solution, they choose one supported by a vendor that understands their market, has local resources to meet their needs, and won't disappear tomorrow.

- **Easily implemented, used, and supported.** Small businesses generally do not have unlimited IT resources, budgets, or in-house IT experience. And they often make the mistake of underestimating the training and change management needed for a business management system to run efficiently and for the organization to begin realizing incremental gains. Therefore, when evaluating ERP solution alternatives, ease of use and training requirements must be considered.

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3. CHALLENGES AND NEEDS—SELECTING SAP BUSINESS ONE

The customers interviewed by PAC were based in five different countries (Canada, China, India, Mexico, and Germany) and had different business challenges and needs to address. Nevertheless, there were some common factors that drove SAP Business One adoption:

1. Siloed and manual systems that were leading to errors, slow response times, low productivity, and high training costs.

2. The need to standardize and automate workflows on an integrated solution that would consolidate business activities and processes across the company.

3. Changing business needs and growth requiring a scalable ERP solution that could grow with the business during a time of expansion.

4. Lack of functionality and performance of existing systems, which were not scaling to meet business requirements.

5. Lack of visibility and access to business information/standard reports left the business without the data it needed to determine where it was over- or under-performing, and where it should invest.

The following are some real-world challenges identified by the customers interviewed and why SAP Business One was their top choice.

In the case of Boan, a Chinese furniture retailer and wholesaler, the management of the organization was becoming more complicated and the company's previous ERP software could not support the newer and more complex processes it was developing. It also needed a technically stable system that matched the needs and scale of the business without straining system resources. The customer stated, "The SAP software could precisely solve these problems, in terms of saving management costs, reducing human cost, preventing duplication of labor, and reducing disputes among different departments." It would not have been possible to contemplate growth until those basic operational elements were addressed. Additionally, Boan noted that it wanted to optimize data access

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for the management team and to standardize workflows. In this sense standardization would have a dramatic impact on reducing its training costs. Its business had grown swiftly since 2004, and as a result the employee ranks had swelled. Without a standardized training program and a unified evaluation system, new employees could not start their new job duties quickly.

SAP Business One represented a platform to address changing business needs and growth for all of the customers interviewed. An Indian customer, Venus Electronics, was dealing with a rapidly expanding business and the need to accommodate that growth. As they stated, "It was increasingly important to implement a system that could help us in aligning the back-end processes and fulfill the need of the growing business."

Hanan Distribuciones in Mexico had a different issue: it liked its existing small business system (Microsip), but it was a "shrink wrapped" solution that did not allow custom modifications. The customer recognized that it had outgrown the system. Its expansion plans included the need to manage a complex supply chain: 20 product categories, from 16 suppliers, in four countries.

In another case, it was time to reassess an initial SAP Business One instance. For example, the German company hhp (Home Health Products) installed SAP Business One back-office functionality in 2004 but took another look at the system in 2010 when it needed to expand its CRM functionality. It opened up the evaluation process to third-party vendors, such as Salesforce.com. Ultimately, SAP Business One was selected due to its ease of integration and ability to customize a CRM solution that integrated with the back-end ERP processes.

A couple of key advantages of SAP Business One are its ability to support immediate and long-term business expansion and provide breadth of functionality to replace outdated systems. For example, hhp decided to purchase SAP Business One in 2003 because the system was deemed suitable for its future growth and expansion into additional regions. The combination of legacy software systems and manual processes were deemed inadequate to meet corporate ambitions, and other software vendors did not allow for the ability to scale as well. In addition to business growth, another perceived advantage to SAP Business One was the ability to start with core ERP functionality and then move into new areas of functionality. CRM (including iPad extensions), warehouse management, and inventory management are some examples of functionality enhancements that SAP Business One supports and were frequently cited by interviewees.

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Cost of SAP Business One was not a factor for customers. One customer who compared SAP Business One to Microsoft's Great Plains found that SAP Business One was a more cost-effective option, especially when the desired add-ons that were needed to support the business were taken into account.

The final point relates to lack of visibility into the business. Hanan Distributors had a well-defined list of requirements for a new ERP system, with demand forecasting being a main priority. The company determined it was essential to improve long-term profitability. Therefore, only systems that provided demand-forecasting functionality were considered. Hanan's business is affected by tourist-based logistics and distribution needs, so product demands change dramatically during a year's cycle, depending on high and low seasons in Mexico's tourist regions. For example, October demands for certain items might be as much as 60% lower than the demand for the same items in April. So, the ability to forecast demand depending on the time of year and was key.

Customers generally noted that SAP Business One's appeal was the combination of solving existing business problems and providing a foundation for future expansion. They needed a solution that they would not outgrow in the mid-term. They chose SAP because the brand is perceived as a positive. Customers perceive SAP as "major league software" that will not relegate their businesses to "minor league" status.

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4. EXPERIENCE WORKING WITH SAP PARTNERS

Most of the companies interviewed relied on SAP's local partners for the purchase and implementation of the SAP Business One solution. This partner ecosystem specializes in implementing SAP Business One and in adapting the solution to a region's top industries through a combination of know-how, add-on solutions, and specialized configuration.

Overall feedback indicated a high level of customer satisfaction with SAP Business One's cost and the competence of the SAP Business One services partners. Approximately 80% of customers said that their implementations were delivered on time and on budget, a staggeringly high success rate for the IT industry. In PAC's opinion, SAP's network of services partners around the SAP Business One solution is best-in-class for the industry.

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5. BUSINESS VALUE ACHIEVED

In interviews conducted by PAC, SAP Business One users cited different aspects of the application as having the most value to their business; this points to their need for business application solutions that cover a broad array of functionality. The most appealing attributes centered around inventory management, end-to-end operational integration, and innovative features that are normally unavailable in other small business applications, such as mobile connectivity and integrated analytics.

Business benefits commonly cited include the following:

Automation of processes that bring cohesion to the organization

Small businesses most often rely on manual processes to perform standard tasks -- using a combination of disconnected Excel worksheets, contact management, and paper-based record keeping. The end result is processes that are highly inefficient, often breaking as the organization scales. In fact, at this point the adoption (or not) of standardized processes offered in a modern business application is often a deciding factor for whether a small business continues to grow or hits a wall of stalled growth and declining profit margins.

Hanan Distribuciones found itself in this exact situation before implementing SAP Business One. As a distributor to tourist-focused retailers in Mexico, the company provides a wide array of products that must be replenished quickly and adjusted according to seasonal demands. Every additional hour of delay in fulfilling customer orders costs the company potential sales. Prior to their SAP Business One implementation, Hanan was using paper and pencil for order intake; as a result, it took 48 to 72 hours to process and ship new orders from the stock room. With SAP Business One, new orders seamlessly generate warehouse fulfillment orders, which now leave the stock room in just 24 to 48 hours. Prior to SAP Business One, new shipments needed to be authorized through a series of phone calls; now the full process is captured within the system's workflow.

For Boan, a period of rapid growth left the company unprepared to bring new employees on board efficiently, since processes were developed by employees already in place. This created an issue for the company—when key employees left, so did the knowledge behind some key distribution processes. By standardizing processes according to SAP Business One best practices, the company now has a template for training new employees and ensuring that future employee churn will not disrupt the

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business. By having a more automated set of operations, the company has reduced its training costs by more than 30% since new employees are now primarily trained on the solution's standard processes. As the company becomes larger, the integrated software solution allows managers to assess employee performance based on concrete statistics and not anecdotal viewpoints.

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Always-on mobile connectivity for sales teams

Given today's broad usage of smart phones and tablets, both in the enterprise and by consumers, there is a growing need for connectivity and information accessibility. Customers expect that up-to-date information should be available at any point of service at any time. As businesses evaluate software applications, mobile connectivity is a crucial consideration.

Home Healthcare Products (hhp), a leading supplier of medical massage-therapy systems with a direct selling model, wanted to engage and interact with customers during home visits and client-facing events. The company wanted a solution that would allow its sales staff to gain direct access to corporate data (such as product attributes, inventory, and customer information). It also needed to be able to process orders from the customer location using a mobile device. In 2010, hhp evaluated Salesforce.com but ultimately chose SAP Business One due to the breadth of integrated functionality that the iPad integration provided.

For hhp, the iPad integration allowed the company's door-to-door sales teams to call up customer, product, and order data from the SAP Business One application within seconds. As a result, sales teams were now able to make 40% more customer visits. Capturing and transmitting orders directly via the iPad also cut the order-to-shipment time substantially for hhp.

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Access to real-time data brings agility

By automating processes with a modern business application, small businesses not only gain efficiency over manual processes, but also gain a powerful new asset in the form of data. Being a single, integrated solution, SAP Business One brings coherent, real-time data to the organization. The ability to support the use and sharing of data in real-time has a powerful impact on the speed with which a small business adjusts to changes.

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For Hanan Distribuciones, one of the key features of SAP Business One was the ability to access information in real time. Thanks to the visibility into inventory levels across all of its product categories, the company can now track all stock movements as they occur. This allows the company to adjust product assortment and inventory levels more quickly when it sees demand fluctuate from its retail customers. This is crucial in the tourist retail business, where seasonal needs, weather, economic conditions, and other external forces can quickly reshape demand. Prior to the SAP Business One installation, it took Hanan between 21 to 30 days to calculate its stock movements, which meant it was often too late for the company to adjust and exploit market opportunities. To increase inventory visibility from one month to real time has had a dramatic impact on Hanan's ability to plan its business at a much more accurate level going forward.

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Add-on solutions and customization make it possible to create competitive new processes

While the standardization of processes is often the most effective boost to small businesses that had been using outdated IT systems (or none at all), there is also a need to capture specialized processes unique to the business' industry or business itself. In this case, automation can still have a dramatic impact on performance; however, it will require a business application that is nimble enough to be configured and customized to support unique processes.

The small businesses interviewed for this white paper demonstrated both the need to standardize processes where possible and customize processes to gain a competitive advantage. In the case of Coral Beach Farms, the company modernized its sorting equipment at its cherry-processing facility in order to improve the size and quality of its cherries, thereby increasing its production and revenue per acre. This required new functionality within the SAP Business One solution to capture both "row size" and the color of the fruit. These attributes were developed in the SAP Business One solution, giving the company a real competitive advantage; the company can now measure the health of its crop—by property, by block of fruit, and by variety—while also having the visibility needed to determine how to improve its profitability.

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6. POST "GO LIVE": WHAT'S NEXT?

Aside from sales force automation (SFA) uses, none of the customers interviewed mentioned a shift in its IT operations to on-demand solutions. However, a common theme in the interviews was the capacity of SAP Business One to support future growth. None of the customers felt limited by SAP Business One in terms of the scope of its future growth aspirations. Indeed, several cited SAP Business One's capacity to support their growth as a major reason for choosing, and sticking with, the solution long term.

Continuous improvement

For many SAP Business One customers the ERP solution is their first real business management system. Thus, a typical post-implementation focus is to continue to improve the usage and efficiency of SAP Business One in order to maximize their original investment benefit.

In the case of Coral Beach Farms, this meant taking the time to build more reporting for its management team and continuously exploring new ways to remove human interactions by leveraging the capabilities of SAP Business One. For example, by upgrading its processing center's scanning equipment, the company was able to cut back on manual interaction and reduce its seasonal-laborer costs.

In the case of Hanan Distribuciones, the company is looking to add the warehouse management component from SAP Business One in order to reduce "out-of-stocks" at its customers' stores and to improve the company's margins.

Expansion into new businesses

The availability of desired functionality within SAP Business One was another theme encountered as a way to expand into new areas and foster future growth.

Boan, the furniture retailer and wholesaler, has been contemplating a move into the furniture production business in order to become a vertically integrated furniture supplier in the Chinese market. As a result of implementing SAP Business One to manage its back office, the company is now considering the manufacturing process module as a way to support its new business line.

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A long-term platform for growth

Given the extensive industry experience and depth of SAP solutions, these companies can now look to other SAP products and extensions in order to extract additional value from their solution. Small-business customers are able to leverage all of the innovation and leadership that SAP has brought to the large enterprise, including the scalability of an integrated business suite.

Beyond standard functionality, SAP Business One provides extensions into new areas such as business intelligence, industry specific solutions, and more to support future business needs. It also provides a path to SAP's full ERP business suite as the company grows. In fact, India-based Venus Electronics mentioned that it might move to the SAP Business Suite in the future if its business grows at the pace anticipated. Venus Electronics, being in a high-growth industry in a fast-growth market like India, had to carefully consider how long its ERP solution would support its business, and whether its chosen vendor would be able to support its rapid growth plans. This made SAP Business One the most logical choice, since there is no other small business ERP solution on the market that offers the same level of choice as SAP, with an underlying technology platform that is consistent from a data and process level.

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7. REAL WORLD INSIGHTS: HANAN DISTRIBUCIONES

As Hanan Distribuciones looks to diversify and grow its tourism-related retail business in Mexico, the company looks to SAP Business One to bring order to its business.

Hanan Distributors, a three-pronged, multifaceted business based in Mexico, has been growing rapidly over the last 14 years. The initial business segment, which is the largest of the three businesses, provides food distribution services to small grocery shops across the large Mexican tourist regions of Cancun, Riviera Maya, and Cozumel.

Following the original business, the company branched out into other areas. Import Kaizen, another of its business units, was launched 8 years ago; it provides importation and logistics services. A newly launched business unit for Hanan Distributors is souvenir distribution, also in Cancun and Cozumel.

Because Hanan Distributors has been growing and diversifying its operations, its business needs, support and process challenges, and overall software requirements were also evolving. The company had been using a locally acquired software system for small businesses that initially served the company's needs. However, the software was an off-the-shelf package that did not support any product modifications; this rigid scenario did not allow for the system to grow in order to reflect or support the rapidly growing company.

Thus, Hanan Distributors was at a point where it felt that it had maximized the value of what the software system could offer the company. Now it was in need of more functionality to support the growing complexity of its supply chain needs: 20 products from 16 suppliers in 4 different countries.

Additionally, the company was looking for a system that would support demand-forecasting needs. Because Hanan Distributors works so closely with tourist-based logistics and distribution needs, product demands change dramatically during a year cycle, depending on high and low season needs in Mexico's tourist regions. For example, October demands for certain items might be as much as 60% lower than the demand for the same items in April. Beyond this, Hanan Distributors also wanted to calculate landed costs for imported products and determine their potential profitability, and finally, the company was seeking to improve and speed workflow processes.

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"It is important for buyers of SAP Business One to know exactly what [(features and processes] the company needs and what workflow will change... ...companies need to know what problems they need to solve and be clear with their reseller about this up front.")

What Motivated the Purchase of a New ERP System?

The company knew that it had basic logistics and distribution needs coupled with more complex forecasting and profitability requirements that were necessary to improve business performance overall. So, while tactically the company depended on business processes that distribute perishable goods, it also had a larger strategic vision of being able to improve profitability based on a more sophisticated IT system.

Hanan Distributors had a very well-defined list of requirements for a new ERP system; it particularly needed one that could perform demand forecasting, because the company had determined this would be essential in order to improve long-term profitability. Only systems that provided this functionality would be considered.

During the selection process the company enlisted personnel with strong IT backgrounds to evaluate possible replacements for its current system. SAP Business One was ultimately chosen due to the fact that it was a very complete system with options for further add-ons. It was also deemed the most cost-effective solution for the company. SAP also is a dependable, well-known brand that the company believed could be counted on to "back" and support any offering that it would provide Hanan Distributors.

SAP Business One Implementation

After defining its list of functional and business process requirements, including demand forecasting, Hanan Distributors worked with the local SAP reseller for its region in Mexico. The business relationship covered not only the already defined business and product needs but also defined the budget to be spent upfront. This process removed budget concerns for Hanan Distributors.

The company also worked with the reseller to determine which add-on features might be suitable for its business purposes. This involved back-and-forth discussions and product demos with the reseller to achieve the right product portfolio. Hanan Distributors found this process to be very helpful to the overall business process definition and to fostering a positive and productive work environment with the reseller.

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Business value achieved

Hanan Distributors was very pleased that the project was delivered on time and on budget. As a follow up, the reseller sent a consultant for post-implementations training of the 10 SAP business users at the company.

While the company was adamant about having demand forecasting capability, one of the key features of the new SAP system is having information in real time about the movement of stock. Before the SAP system, it took from 21 to 30 days to get an accurate picture of where stock physically resided. It was very difficult to place stock in the right locations. With SAP Business One the company can monitor stock in real time in a cost-efficient way.

With SAP, Hanan Distributors also can calculate landed cost per article. Previously calculations were done with Excel spreadsheets. This was not only cumbersome but also limited the company to calculating real costs at the end of the year.

Further benefits of SAP include automated authorizations (for stock movements) and an alert system that informs Hanan Distributors if a client has not made a purchase in specific time periods. The company can make follow-up calls to important clients and perhaps can stimulate new orders for the company.

Hanan Distributors has also extended the SAP solution with the addition of mobile sales capability, which allows the company to receive web-based orders from drivers on routes through an iPad. This has vastly improved merchandise turn-around. The old paper-and-pencil systems only allowed for orders to be taken at the end of the day and typically meant merchandise did not leave the stock room for 48-72 hours. The new mobile sales capability means that merchandise is moving within 24-48 hours.

The SAP Business One solution has met Hanan Distributors expectations, and the company has recommended the solution to other enterprises with which it does business. Hanan Distributors is continuing to explore the solution and is considering adding Warehouse management capabilities to maximize the value of SAP Business One as the company continues on its growth path.

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8. FINAL COMMENTS BY PAC

There are many business application options on the market for small businesses, ranging from simple accounting products to local or niche industry products. However, there are very few complete, single-product ERP solutions created with the needs of small businesses in mind, that are low cost to own and operate. With SAP Business One, SAP offers a modern ERP solution for small businesses that not only brings a platform for growth, but also one that is also easy to implement and to manage.

Additionally, since SAP has long been partnering and co-innovating with its software solutions partners, small businesses can take advantage of innovations from this extensive partner ecosystem to extend the core functionalities of the solution. For example, PAC saw interest from participants in expanding into SAP BusinessObjects BI (business intelligence) as well as mobility rollouts to smart phones or iPads. For small businesses that aspire to aggressive growth, SAP offers a path of solutions to which they may transition as their business requirements change over the long term.

It is critical that small businesses ask not only whether an ERP solution under consideration can be a suitable and reliable backbone to their business for the next couple of years, but whether the company standing behind the product will be able to support them as they grow in the next three, five, ten years or more.

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About SAP

As market leader in enterprise application software, SAP (NYSE: SAP) helps companies of all sizes and industries run better. From back office to boardroom, warehouse to storefront, desktop to mobile device—SAP empowers people and organizations to work together more efficiently and use business insight more effectively to stay ahead of the competition. SAP applications and services enable more than 109,000 customers to operate profitably, adapt continuously, and grow sustainably. For more information, visit www.sap.com.

About Pierre Audoin Consultants

Pierre Audoin Consultants (PAC) is a global market research and strategic consulting firm for the Software and IT Services Industry (SITSI). PAC helps IT vendors, CIOs, consultancies and investment firms by delivering analysis and advice to address a range of growth, technology, financial and operational issues. A 30+-year heritage in Europe – combined with a US presence and worldwide resources – forms the foundation of the ability to deliver in-depth knowledge of local IT markets, anywhere. PAC employs structured methodologies – undertaking thousands of annual face-to-face interviews on both the buy and sell side of the market, as well as a bottom-up, top-down approach – to leverage the research effectively. PAC publishes a wide range of off-the-shelf and customized market reports – including the best-selling SITSI® program – in addition to a suite of strategic consulting and market planning services. Over 160 professionals in 16 offices – across all continents – are delivering the insight that can make a difference to your business.

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