

## Software Feature - SAP Business One, an overview by David Carter

*Over the past few months our IT consultant editor David Carter has been evaluating SAP's new mid-range package, Business One. We'll soon be publishing his Lab Test findings on the individual modules. These are his thoughts on Business One as a whole.*

SAP is one of the world's biggest software companies, and with its R/3 package is THE largest supplier of application software (accounting, stock control, etc) to multinational corporations. When the biggest player in the corporate market decides to break into the SME ("small and medium-size") market, it is a serious matter. So the arrival of SAP Business One is a major event. Nothing so important has happened in the SME marketplace since Microsoft bought Great Plains and Navision 4 years ago.

In fact, Business One has already been around for 2 or 3 years, but with hardly any marketing effort behind it. At AccountingWEB we have been chasing SAP for the last 18 months to do a Lab test, but they were extremely reluctant to allow us onto the premises, arguing that Business One simply wasn't ready. "Not till after the next release!", they kept on saying.

But Business One is extremely important to SAP. To get an idea of just how important, consider the recent announcement by CEO Henning Kagerman committing SAP to increase its annual turnover from \$30 to \$70 **billion** by 2010. With the multinational corporate market pretty well saturated, major growth for SAP is going to come from the mid-range and here it has set itself some very ambitious sales targets. It's time we took a good, hard look at Business One.

### **It's not just the software**

A LabTest on the Financials is coming out now, and tests on the CRM, Order Processing and Stock modules will follow over the next few weeks.

However, it's not just a question of software. So many top-level companies fail when they try to enter the SME market and SAP will have to get many other things right as well. This article examines the wider picture. I'll look at the differences between the corporate and the SME markets, then at SAP's strategy for SME's. Then I'll give a brief

summary of Business One as a piece of software, and an overall verdict on whether I think SAP are likely to succeed.

**If you are simply interested in the software, you can skip all the market and strategy stuff and go straight to the findings at the**

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# 1. Corporate Market vs SME Market

## The corporate vendors

The world of application software is dominated by the big suppliers who supply the big-name customers. If the British government decides to standardise on Oracle Financials, or a multinational like Shell replaces its old legacy system with SAP R/3, that's news. Even in the specialist IT press the companies who supply to the SME (small and medium size enterprise) market hardly warrant a mention except for Sage.

For these big vendors the boom times were the 1990's. Spurred on by fear of the millennium bug (remember?) big organisations decided they had to replace their existing legacy systems before the year 2000. And they chose to go for the new integrated ERP ("enterprise resource planning") packages, rather than bolt together individual "best of breed" products. The big five JBOPS vendors (J D Edwards, Baan, Oracle, Peoplesoft and SAP) made a fortune, and investors reaped rich rewards.

But the seven fat years before year 2000 have been followed by the seven lean years after. The market at the top end is saturated. How to please investors and Wall Street who want the revenue growth of the 90's? The answer lies in the SME market. From a distance the numbers look great – there's tens of thousands of SME's compared to just a few hundred multinationals, it's very fragmented with no really dominant players, and it's very undeveloped. Every so often one of the big suppliers makes an announcement that it is about to "move into the SME space."

This all sounds impressive, but industry veterans know these forays rarely achieve very much. For example, four years ago Microsoft bought up Great Plains and Navision for a cool \$1 billion apiece. At the time there was considerable fear in the industry of this powerful new player, but who worries about the Microsoft threat now? Nobody.

## It's a different type of customer

Why do companies who are successful at the top level so often fail to achieve very much in the SME market?

For one thing, the customer is different. In big companies IT is run by a proper IT department, whereas in an SME it's usually one man and his dog, or there's no IT department at all. This makes it a different kind of sale. With a big system you are selling to IT professionals, whereas with an SME system you are selling to the end-users.

Now the IT people don't actually do accounting or stock control themselves, so they won't be using the software. And most of the time the IT people have only the haziest idea of exactly what the software is supposed to do anyway. So if you are selling to IT you keep away from nitty-gritty stuff like VAT rates, PAYE, balance sheets, which is only going to confuse them, and stick to things they are comfortable with like databases, networks, strategic IT, etc. It's a technical or high-level sell, often without any detailed discussion of what the software will do at all. Most of the time the users don't get a look in until the software has actually been installed, and by then it's too late.

But in small organisations there is "user-power". With IT less powerful or non-existent, it's the users themselves who dominate decision-making. Techno-babble turns them off and they are really only interested in one thing – will it help me do my job better? So when selling to an SME you have to talk the users' language and convince them that you understand their business. You must show that your software is intuitive and easy to use, and that it can do the job. It's a business sell rather than a technical sell.

## Big software isn't user-friendly

Here the big vendors run into their first problem. Written by IT technicians for other IT technicians, their software simply isn't very good. Usually it's klunky, slow and unintuitive.

So when researchers do user satisfaction surveys, big company software invariably comes at the bottom of the list. For example, in June 2004 the IT Faculty of the ICAEW did a survey of business packages in over 1,000 organisations. Out of the 26 packages in use they found that:

*"The products that performed least well overall were SAP R/3 and Oracle Financials, both of which tend to be used predominantly by larger businesses. SAP R/3 had a score of 70 overall, and was the product least likely to be recommended by users (57%). The satisfaction score for SAP R/3 appears to have been hampered by relatively low ratings for "ease of use" (3.0) and "initial service" (3.0), whereas the "product reliability" score was a respectable 4.1.... The only package that scored worse than SAP in terms of user satisfaction was Oracle Financials, which had the lowest satisfaction score (63), as well as the poorest scores for all the attributes tested."*

To be fair, it's not entirely the fault of the technicians. Top of the range software has to be able to handle hundreds of thousands, even millions, of transactions. This does not allow the designer to make the software as flexible as they would like: by contrast, the mid-range designer is free to design the software any way he wants. To make a naval comparison, it's like a battleship versus a destroyer. The battleship has the big guns and massive firepower, but it is slow and unwieldy compared with the small, nimble destroyer.

So if it's quality and ease of use you're looking for, the mid-range products are way ahead. For any one who has been used to working on a nimble, frisky mid-range accounts package, having to change to one of the top end corporate products is like going back into a time warp.

Here, then, is SAP's first problem: are they capable of writing software that users actually like? As long as you're selling to IT it doesn't really matter how slow and klunky your software is. But once the end users start to get involved, ease of use and flexibility matter; now the software has to be good.

## Resellers and "the channel"

Another key difference for SAP is that here in the mid-range they have not one customer to sell to, but two. At the top end of the market there are just a few hundred multinational customers, and the big vendors sell to them direct. But in the mid-range the number of SME's is so great that a vendor has to sell indirectly through third-parties. These "resellers" are small independent software companies who often serve a particular local area or vertical market.

At the top and bottom end of the market, it's the package suppliers who have the power, but in the mid-market it's the resellers. It's they who talk with the customer, it's they who install the package and make it work. They can pick and choose which products they resell, often from competing manufacturers. SAP has to persuade them that it will be worth investing all the time and resource to take on Business One.

This relationship between software suppliers and "the channel", as it is called, is often a difficult one, particularly when the supplier maintains a direct sales force to sell to major accounts. The IT press is full of spats where a reseller has established a relationship with a large potential customer, then the supplier's own sales team start trying to muscle in. On the whole, the suppliers who succeed with the channel are those who resist the temptation to sell direct and commit themselves to make 100% of their sales through the channel.

So, here are two key problem areas for SAP. Are they able to write easy to use software? And can they attract resellers and work successfully with them in the channel?

## 2. SAP's Market Strategy

### Method of Entry

To write a complete suite of accounting modules takes a long time and SAP, like Microsoft before them, has decided to speed things up by buying their way into the market. Both started this process around 2001 but have adopted different strategies. Microsoft went out and bought several major players in the mid-range market. In the US it acquired Solomon Software and Great Plains - the latter the biggest player in the US with its Dynamics package. In Europe it bought the Danish company Navision, and with it Axapta.

This method certainly gained instant market share. However, by buying four packages all serving a similar market, Microsoft rather dug a hole for themselves. In order to persuade users that all four products have a future, Microsoft is having to spend a great deal of development time making them all compatible with each other.

The other approach is that of Sage. This is to buy in products from other companies and re-badge them as your own. So Sage now markets a product range moving smoothly upwards from Sage Line 50, through Line 100, Line 200, Line 500 and up to Line 1000. Of these the only package that Sage wrote itself is Line 50.

SAP have adopted the Sage approach. The core software of Business One was originally written by an Israeli company. SAP purchased it in 2001 and since that time it has been extensively developed by SAP themselves.

The advantages of this approach are that SAP develop only one product which carries no baggage in the form of an existing user base. There are no compatibility issues to worry about and they can concentrate their efforts on improving the software. The disadvantage is that developing a near green-field product in this way takes several years and has delayed SAP's entry into the market until now.

### Pricing and Target Market

The first surprise of Business One is that it is very reasonably priced. A distribution and accounting system with 10 full-time users costs around £26,000. This is a tier below the pricing of packages such as Navision or Systems Union, and competes more with Iris Enterprise and Pegasus Opera.

As regards functionality, there are sets of financial and distribution modules. The latter include sales and purchase order processing and stock control, as one would expect. But service management and (lightweight) manufacturing are there as well.

Mindful perhaps of the notorious reputation of bigSAP with its 20,000 data tables, SAP stress that Business One is not meant to be an all-singing, all-dancing ERP suite that can be configured to do anything. Rather, it aims to provide a set of high quality core modules which can be easily customised. SAP is encouraging ISV's (Independent Software Vendors) to link their own packages to Business One for specialist and vertical market applications. For example, a Job Costing module is available from one ISV, and manufacturing specialists Fourth Shift are adapting their systems to run on Business One.

As to customers, the general target market for Business One is any small and medium size business with between 5 and 500 users.

There is also the specific target market of existing SAP customers. These have big SAP at HQ and their larger plants, but they also have numerous smaller subsidiary companies and factories. Big SAP is not suitable for these smaller operations: they need a mid-range package like Business One.

## “It’s a business management package”

SAP are very keen to emphasise that Business One is not just another set of accounting ledgers, but a complete “business management” package designed to handle the whole operations of the company. I understand that at the moment most sales of Business One are for front office applications such as stock and order processing, rather than to the Accounts department.

This strategy makes a lot of sense. In most SME’s the individual departments have already gone their own way and bought a PC or two for their own use. Finance in particular will have automated the accounting functions. But it’s all been piecemeal and the packages are stand-alone and don’t talk to each other. The next stage of development has to be to integrate all the separate systems into a single, company-wide, system.

It also plays to SAP’s own strengths, since they are the world’s top supplier of Enterprise Requirements Planning or “ERP” software. (Don’t worry about the RP, it’s only the “Enterprise” bit that’s important). Combining all your departmental systems into a single enterprise system can involve a lot of pain, but once you’ve done it you’ll find you can’t live without it. Here, for example, are the findings of a recent survey of companies in the automotive industry who were using ERP packages, many of them bigSAP:

**IT managers in the automotive industry stressed their dependence on their ERP suites. Quotes like “everything we do, we do through the ERP system”, “really, you can’t do without it these days” and “well, it’s the business... it’s got all of our data and everything...” only serve to underline the sustained prominence of ERP. (Frost and Sullivan, “ERP Takes Throne As Most Ubiquitous Enterprise Application in European Automotive Industry” )**

This strategy also sidesteps the competition. The ICAEW survey found that in accounting and payroll, branded software was dominant. But in the front office they found that “databases and spreadsheets predominated”, while 70% of stock and order processing systems were not integrated with the accounts package. By concentrating on the front office SAP goes for a segment where there is little competition, and avoids taking on the established vendors on their own ground.

## Good in theory, but everything has to work

So if you’re an FD and you get an approach from SAP, they won’t be saying “It’s time you bought a brand-new accounts package; buy from us”. They’ll be saying “It’s time you pulled all your systems together into a single business management package; buy from us”. Since this is just what we’ve been saying on AccountingWEB, this seems a pretty good message to me.

However, for this strategy to work in practice, everything will have to be good. The software will have to be top-class. Accounting staff can get used to anything, but once you go out into the non-admin departments - stores, production, sales staff taking orders from customers over the telephone, etc - the software has to be very slick and easy to use, infinitely better than bigSAP.

The customers too will have to be good, since at the end of the day it’s the customer who makes any system work. The big problem with an enterprise system is that each department handles its own little area but there’s no-one who’s responsible for the whole thing. To get the best out of Business One, customers will need to get themselves organised and to work co-operatively.

## Attracting the reseller elite

In particular, the resellers will have to be good. Anyone can install a departmental system like accounting ledgers, but an enterprise installation is something else. Implementing seven or eight modules simultaneously in one big bang over a weekend is not for the faint-hearted. Most SME’s won’t have an IT department, so the burden will fall almost entirely on the reseller. They will need strong project management skills, as well as the business experience to understand the company’s operations as a whole.

This is not your average local reseller. These skills are in short supply, and the sort of resellers SAP needs are the bigger ones with wider skillsets, the cream of the reseller community.

SAP have realised this. A reseller of Business One told me that in the early days SAP didn’t have much idea of what they were doing and went around signing up resellers of Sage. However, in early 2005 they appointed an ex-Great Plains/Microsoft man as channel manager. After he arrived they started getting their act together and going for the better quality resellers.

There could be a problem here in that these sort of resellers are usually selling more expensive packages where the customers are willing to pay for their skills. SAP will attract them as a supplier, but unless it is very easy to install, they may decide that Business One is too cheap for them to make any money out of it.

One last point: in the case of existing bigSAP customers, SAP tell me that any sales of Business One will be made through resellers, not by SAP themselves. If they can stick to this policy they should avoid upsetting the reseller community.

## Summary

To summarise, then, SAP seem to have put together a good approach to the mid-market. But they will have to get the cream of the reseller community on board to make it all work. In the end it will boil down to the quality of their software. This isn't bigSAP – there's not going to be any head office IT department forcing people to use Business One whether they like it or not. Can SAP raise their game to meet the higher standards of the mid-range? Can they write software that is powerful, easy to use and quick to install?

## 3. How Good Is Business One?

I have to report that Business One is a good piece of software. In fact, it is not just good - it is very, very good.

The overall standard of design is very high. It is closely integrated with MS Office and has a similar look and feel. In many ways it is like Navision, the package to beat in this enterprise space. It is very customisable: the users can easily choose which fields they want displayed in their screens, they can even invent new ones. Power users who know a bit of SQL can do even more.

At a deeper level, Business One is brimming with new ideas and most of the latest concepts in accounting software are here. You can process multiple transactions simultaneously by displaying them all on screen, unhighlighting the ones you don't want, then pressing a button to Process. In reports, the data is all live on screen with drill down ability, rather than dead for purely paper output. Payments to all three ledgers are made through a single screen. The Drag and Relate feature allows fast and intuitive drill around to related transactions. There is a very attractive Excel-based Report Writer.

The front office modules are very good, reflecting SAP's own wide experience. In particular, SAP have provided an excellent CRM module for control of sales prospects, quotations and pipeline during the pre-order stage. Most ERP packages only start at order entry and this fills in the gap.

## Integration with Outlook

Most important of all is the integration with Microsoft Outlook which is (I believe) an innovation of fundamental importance.

In a company of 100 people, typically there will be only 10 actually entering data onto the accounts system. However, with Business One the other 90 can access this data via Outlook. Even more important, they can enter transactions (called Activities) via Outlook.

I am still trying to get my brain around this, but it seems to me that SAP have re-defined what an ERP package is here. Apart from invoices and orders, the most important type of transaction that any business has with its customers is a communication – when people talk to each other. By enabling any user to record a communication on the ERP system via Outlook, SAP allows Business One to record ALL the transactions between a company and its customers. The ERP system now becomes the transaction hub of the enterprise, and also gives us the holy grail of CRM – a complete 360 degree view of the customer.

## Weaknesses of Business One

If there are any reservations, and I have some, that's inevitable with a new package. But there are a couple which need to be mentioned.

### ■ Problem #1 – where are the forms?

My first doubt is about the lack of forms in Business One. Data entry is via a list-type display and entering transactions is like typing into the top row of an Excel spreadsheet (if you are not sure of the difference between list and form entry, open an Excel spreadsheet containing a list of data, click onto one line, then select Data – Form to show this same record as a Form).

For the majority of activities - screen enquiries, reporting, file maintenance – an Excel-like display is best. But in the one case of data entry I think most users would be more comfortable typing into a form where the prompt is to the left of the field. Form-based entry is the traditional way and I think that intensive users (the most important ones) may find themselves sliding around the screens.

Personally, I'd like SAP to reconsider this policy and offer the user the option of overlaying a form onto each data entry screen and typing the transaction into that. But ease of use is a very subjective thing and you need to check this for yourself. So during the demonstration don't just sit there and watch passively. Kick the SAP people off and get your own staff onto the keyboard for at least an hour putting transactions through. (This is good practice at any demonstration, not just of Business One).

### ■ Problem #2 – GL transactions are summarised

Suppose you enter a purchase invoice and analyse it into, say, 5 amounts - all to the same GL code and to 2 cost centres. In the GL transaction file Business One holds not the 5 original records, but 2 summary records, one per cost centre. This looks like really bad news. Sure enough, print off a list of the 5 costs and you've lost the original description you typed in against each one and just get a meaningless list of invoice numbers.

Designers have been doing this for years because it keeps the number of records down in the GL file and speeds things up. But once you start summarising transactions it causes nothing but trouble. GL transaction lines are the basic elements from which reports are written: summarising them corrupts the reports database.

When I raised this point with SAP they told me with a straight face that this approach was more efficient and delayed the need to archive data. My guess is that it was in the original design of the Israeli company and was too deep to change.

Anyhow, the point is that they've appreciated the problem and sorted it out in XLReporter, their (extremely attractive) report-writer. When you use XLReporter you DO have access to the individual line data. So in practice, if you want detailed GL transaction reports, you should ignore the standard Business One reports and use some that have been written in XLReporter.

As long as you understand what's going on, there's no problem here. I understand that SAP have collected together 70 or 80 existing reports written in XLReporter and will be shipping them as standard with Business One from now on. This will save new users having to write their own reports and re-invent the wheel.

## Overall Verdict

To summarise, this is top quality software and SAP have shown that they can be masters of the mid-range as well as the top. Accountants and non-accountants should find it attractive and easy to use, although I think form-based data entry would make it even easier. The front office modules are very strong, even better than the financials although these are perfectly respectable.

So will it attract the resellers? You bet it will. It's easy to customise and should be quick to implement, and SAP has the world's best brand name. I am quite sure that most resellers will be eager to get this package into their portfolio and SAP will be able to pick and choose whom they take on.

In particular, it will attract the Navision resellers. Microsoft stunned them last year when it scrapped the wonderful Navision brand name in favour of Dynamics, its (much inferior) US package. They will welcome the opportunity to hedge their bets: and price-wise Business One slots in neatly just below Navision.

So my guess is that Business One is going to be a thundering success, and that over the next decade SAP is set to dominate in the SME market as it already does at the top. We in the mid-range had better get used to seeing a lot more of the people from SAP.