

WHITE PAPER

SAP in the Small Enterprise: Lessons Learned in Europe and Africa

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IDC OPINION

Small businesses in Europe are under pressure from various sides. They must comply with local and international regulations, comply with formats stipulated by large customers and suppliers, and manage foreign expansion cost-efficiently. Many enterprises meet these challenges using silo-based legacy applications and manual processes that do not scale well.

IDC interviewed seven companies in Europe that have chosen to implement SAP Business One to help overcome these challenges. Based on these interviews, IDC concludes:

- ☒ *Six of the seven companies successfully implemented SAP Business One within the budget and time limits determined originally. The one remaining company experienced a minor overrun of time and budget primarily due to scope changes, but still considered the implementation successful. One company even managed to go live a month earlier than originally planned and 10% below budget.*
- ☒ *SAP Business One implementations appear to take between one and seven months per site. Projects with a relatively high number of users (for example, over 30) and wide scope including manufacturing and distribution processes tend to take longer. Although the implementations were considered successful, the interviewees mentioned challenging aspects in the implementations, including a time burden on line-of-business employees and how to train end users.*
- ☒ *The seven companies used SAP Business One to realise important advances in their business. Some replaced outdated and unstable business applications and achieved a stable and reliable platform for business transactions and business information. Most companies cited automation and streamlining back office operations as critical aspects to enable profitable growth. Some gained critical insight into margins and were subsequently able to improve pricing and profitability.*
- ☒ *Several companies saw customer service improve significantly as a result of the ERP implementation. A Norwegian company was able to automate and innovate front-office operations significantly with SAP Business One. A Danish distributor has leveraged SAP Business One to introduce new important services to resellers, such as direct delivery. Two manufacturers in France and the U.K. significantly improved their ability to accommodate rush orders, to the delight of their customers, as a result of the SAP Business One implementation.*

METHODOLOGY

This IDC White Paper summarises the findings of seven case studies of multinational companies across Europe and Africa. The interviewees were high-level decision makers in Campari (France), Entertainment Trading (Denmark), Kilfrost (United Kingdom), KSW Microtec (Germany), Protea Coin (South Africa), Snap Drive (Norway), and VDEL (Austria). SAP provided access to a decision maker in each company, and they were interviewed over the phone. IDC also interviewed SAP business partners serving several of these companies. The interviews took place over the summer of 2008.

Appendix 1 provides further details on each case company.

IN THIS WHITE PAPER

Small European enterprises are under pressure to comply with regulations and industry standards, conduct business in several countries, often using several languages, and currencies, and manage growth profitably.

This White Paper analyses the experience of seven small enterprises in EMEA that have chosen to implement an ERP solution from SAP to manage business challenges. Considering that an ERP implementation is often considered costly and complex, IDC set out to examine the following key questions:

- What business challenges led these companies to implement an ERP solution?
- How much effort does it take to implement an ERP solution from SAP?
- What are some of the lessons learned from these implementations?
- What has been the concrete business outcome as a result of the ERP implementations?

This White Paper analyses the experience of seven small enterprises in EMEA that have chosen to implement an ERP solution from SAP to manage business challenges

BUSINESS CHALLENGES

Small enterprises in Europe face a number of common business challenges. Based on the seven interviews in this White Paper, we discuss five key issues in detail that were mentioned by the interviewed companies.

Cost of Compliance

Small businesses are faced with many different regulatory or industry requirements that are mandatory regardless of company size. Some requirements may originate with public authorities, such as mandatory reports to public institutions, ability to identify product by production batch in the food industry, or mandatory electronic invoices to public sector customers in certain countries.

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Other compliance issues are related to industry regulations, such as testing, security, and safety requirements of the airline industry. For U.K.-based de-icing fluid vendor, Kilfrost, testing, control and documentation procedures are embedded in all parts of the production process.

Finally, customers or suppliers may dictate compliance. As the exclusive distributor for Red Hat in Eastern Europe, Austrian company VDEL was required to supply several detailed reports regarding orders and sales to its supplier. Without an integrated business application, such reporting was costly and time-consuming. German RFID component supplier, KSW Microtec, sold to security-sensitive applications like contactless credit card and access systems companies, and customers required reports on production quality and full sub-supplier overview; documents that were time-consuming to produce.

Compliance may be dictated by customers or suppliers

Labour-Intensive and Costly Manual Administrative Processes

A common trait of many small enterprises is their desire to grow fast. However, profitable growth of small enterprises is often inhibited by manual and cumbersome administrative processes, such as manual double entry between systems, manual entry of incoming documents and manual creation of outgoing documents. The additional administrative personnel needed to support increased business volumes can make growth plans unfeasible.

Profitable growth of small enterprises is often inhibited by manual and cumbersome administrative processes

Another problem related to manual processes is the inability to cope with extreme business fluctuations and the seasonality that characterises many industries. Manufacturers, such as the French production site of the Italian beverage giant Gruppo Campari, mentioned the difficulties of fulfilling rush orders using manual procedures. Without scalable business processes, such fluctuations can drain a small company of human and financial resources.

Many small suppliers, such as KSW Microtec, supply to large organisations characterised by frequent requests for delivery information or delivery changes. Employees had to assemble the required information from multiple spreadsheets, which is an error-prone and time-consuming task.

Labour-intensive procedures, put simply, are costly. Such procedures might work on an ad-hoc basis, but over time, labour-intensive administration damages the profitability of any company.

Lack of Business Intelligence for Decision Making

Small companies often do not have the business applications needed to provide real-time insight into critical information used for decision making. Markus Alschner, the CEO of Austrian distributor VDEL, described the situation succinctly: "So many small businesses find themselves in the same fix: they have a working accounting solution in place but they have no information about their own business."

The inability of a small enterprise to extract actionable information about its own business operations often has very concrete consequences. Managing director of Campari France, Georges Chasseuil explained how hard it is to measure the profitability of a certain order, production batch, or product category. He said: "We operate in a mature, highly regulated industry in which reduction of production losses is critical to our margin. Previously, it was very complex for us to determine the profitability of an individual production batch, because our production system was not integrated with our accounting application."

The inability of a small enterprise to extract actionable information about its own business operations often has very concrete consequences

Snap Drive, a Norwegian chain of service workshops, described the difficulties of benchmarking financial and operational performance of one workshop versus the other. Without one common business application for all workshops, such comparisons would be costly and time-consuming.

Lack of Customer Self-Service Options

For routine inquiries, European customers are becoming accustomed to Web-based self-service. Many actually prefer to look up information on a customer portal rather than waiting on the phone in a customer service queue. Questions regarding very concrete information, such as delivery status, order details, account balances, bookings, and prices, are well suited for self-service.

For small enterprises, however, provision of Web-based self-services can be near impossible, because it requires a business application to expose the data in the first place. Prices maintained in a spreadsheet or in a custom-built legacy application can be very hard to expose on a Web site. For example, consider the complexity if the price of an item depended on the accumulated purchases of the customer and on the order size.

For small enterprises, provision of Web-based self-services can be near impossible, because it requires a business application to expose the data in the first place

Lack of self-service can have serious consequences for the small enterprise. Mike Nielsen from, Denmark-based entertainment product distributor, Entertainment Trading, explained how a few back-office employees had to respond daily to 200–400 emails from customers regarding delivery status. Although these were mostly basic enquiries, they still caused a serious strain on the company.

Risk Due to Lack of Business Control

If transactions are not properly traced and documented, anyone can — in theory — authorise any transaction to anybody. What happens does so because there is no audit trail and therefore no simple way to find out who did what. The risk of fraud is one issue, but even more important is the risk of employees committing errors unknowingly. A well-meaning employee can authorise too much discount, purchase at the wrong price, or accept a large order on the wrong terms.

The risk of fraud is one issue, but even more important is the risk of employees committing errors unknowingly

At the distributor, Entertainment Trading, management could not accept the risk exposure from faulty transactions. Consequently, they spent a large percentage of their time sifting through and approving piles of orders and invoices — a task that for the most part was quite manual and added little value.

Another element of risk is that associated with delays in delivery. At the de-icing manufacturer, Kilfrost, a delayed delivery could have severe financial implications due to the way contracts are set up with the airlines. Because historical data and forecast planning was not available in the previous business application, the company managed delivery risks through relatively high inventory levels and frequent rush orders — solutions that negatively impacted profitability.

IMPLEMENTATION EXPERIENCES

None of the seven companies interviewed for this White Paper experienced serious difficulties during the implementation of SAP Business One. The majority completed the implementation on time and on budget. One company experienced minor slippages on time and budget, but attributed these to scope changes and was satisfied with the implementation. One company even completed the implementation at 90% of the expected cost and was able to go live one month sooner than originally planned.

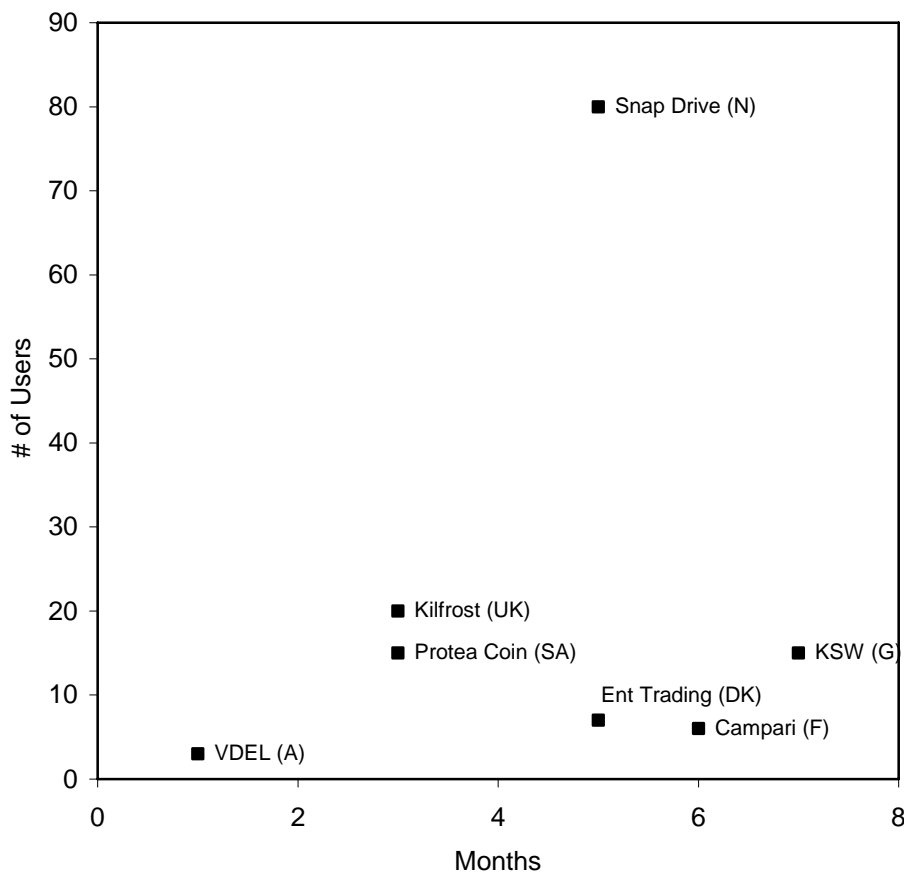
Based on the seven cases in this White Paper, the implementation of SAP Business One appears to take between one and seven months per site. Figure 1 shows the relationship between the number of months to implement SAP Business One and the initial number of users.

None of the seven companies interviewed for this White Paper experienced serious difficulties during their implementation of Business One

The implementation of SAP Business One appears to take between one and seven months per site

FIGURE 1

SAP Business One: Implementation Time



Source: IDC, 2008

One company, Snap Drive, implemented a relatively high number of users (80) in a relatively short time (5 months). IDC believes that a relatively high number of users tend to require a longer implementation time. Another key factor in the actual implementation time is the breadth of the solution's scope. For example, an implementation that includes both manufacturing and distribution processes tends to require more time than an implementation focusing mostly on accounting and invoicing. An illustration of this is KSW Microtec, which had the longest project duration, and which implemented a complex manufacturing process in SAP Business One.

An experienced SAP Business One consultant, Helmut Hochberger from Austrian SAP Business One partner B1C, confirmed the observations above. "Using a standard implementation guide, we can implement a full solution, including end-user training, in one month. In the other extreme, we have tried implementations involving complex interfaces and complex data migration and in such cases implementation can take up to seven months per site."

Implementation Challenges

Despite the relatively smooth implementation experiences, most interviewees could mention factors that proved more difficult than expected.

Managing director at Campari France, Georges Chasseuil, commented: "SAP Business One does offer a lot of choices in terms of configuration, setup of processes, and data structure. So, the project actually ended up requiring a **lot of involvement and time of our line-of-business people**, more than expected. On the positive side, our business people really took ownership of the system."

Despite the relatively smooth implementation experiences, most interviewees could mention factors that proved more difficult than expected

Another challenge, which came up during interviews, was the **how to get end-users trained in using the system**. Mike Nielsen from Entertainment Trading explained how the education of end-users was underestimated during the implementation of SAP Business One: "We tried with a system of super users that were supposed to support the normal end users but it didn't quite work. We should have focused more on educating everybody." CIO at Kilfrost, Chris Blaxall, also mentioned that in hindsight, end-user training in SAP Business One could have been more rigorous.

A third issue that was mentioned was **how to make business documents look like they used to**, in particular invoices, which can be complex, important documents that require significant design efforts. According to Georges Chasseuil from Campari, one way to overcome the design problems is to accept that an invoice in a new system will look slightly different than the one from the previous system. After a while, employees and customers quickly become accustomed to the new business documents.

Kilfrost and Protea Coin Security experienced a fourth implementation challenge: **cleansing and migration of legacy data**. An integrated ERP system, such as SAP Business One, does a large amount of integrity checks across different sorts of master data, and therefore requires higher data quality than that of older standalone systems. At Kilfrost, the cleansing and repair of master data required more effort than originally planned. At Protea Coin Security, the original plan was to import 17 million historical transactions, but this proved too complex. Instead, 4.5 million open transactions were imported. At KSW Microtec, the complex migration of transaction data for reporting purposes added two months to the implementation project.

Finally, Snap Drive, Entertainment Trading, and Protea Coin Security initially encountered **performance and system issues**. Snap Drive was the only company going live on a version of SAP Business One prior to version 2005 and it initially encountered significant performance problems in terms of response time and invoice printing time. However, an upgrade to SAP Business One version 2005 and a simultaneous hardware upgrade solved the performance problems. Today, Snap Drive's Business One system is stable and presents a rapid response time. Entertainment Trading joined an early adopter program for SAP Business One version 2007 and was therefore not surprised when it crashed on a number of occasions. However, these stability issues have also subsequently been solved, according to Entertainment Trading. Protea Coin Security experienced slow performance on certain reports and is currently purchasing higher capacity hardware to solve these performance problems.

BUSINESS OUTCOMES

Overall, IDC found that the implementation of SAP Business One had profound and significant effects on the seven companies interviewed for this White Paper. These effects sometimes went significantly beyond the back-office realm, where ERP applications are normally expected to reside.

Enhanced Customer Service

Two of the seven companies, namely Snap Drive and Entertainment Trading, leveraged SAP Business One to directly enhance the customer experience.

Snap Drive centralised and automated most of its planning and administration work, which meant that its 17 workshops could focus on face-to-face communication with customers and on servicing automobiles. Previous non-core tasks such as service booking, spare part identification, sourcing and ordering and customer follow up calls were either centralised or automated. The automation means that the mechanic can answer enquiries and price a service proposal while in the presence of the customer — a huge improvement from the days of lengthy investigations and the subsequent customer call-backs.

Snap Drive centralised and automated most of its planning and administration work

Entertainment Trading used SAP Business One to gain important advances in customer service. CEO Mike Nielsen explains: "If you consider our resellers, they are now automatically informed about delivery progress, they have a portal connected to SAP Business One in which they can review prices and their unique discount level, cancel orders, or get delivery status per order line. They also get PDF copies of invoices sent automatically. More importantly, we are now using the system to allow resellers to request direct delivery to their end customers. That's a really big deal for them, because they sell and deliver products fast, without carrying their own inventory. Such offerings are key to our competitive differentiation."

Entertainment Trading used Business One to gain important advances in customer service

KSW Microtec consolidated approximately 30 Microsoft Excel-based applications in SAP Business One. Michael Schäfer, director of procurement and logistics, relates: "With SAP Business One we capture and document a very complex production process in one system. As a consequence, we can respond very fast to customer inquiries regarding new orders, existing orders, and generally provide our customers with control and visibility of their supply chain. Our ability to provide customers with such information is a key differentiator against low-cost competitors."

KSW Microtec's ability to provide customers with information is a key differentiator against low-cost competitors

Other companies, such as Kilfrost and Campari, mentioned how SAP Business One had improved their ability to accommodate rush orders from customers and therefore led to an increase in customer satisfaction.

Improved ability to accommodate rush orders

Improved Management of Margins

Real insights into the profitability of an order, product or a particular project require the marriage of the costing/accounting system(s) and the delivery/production system(s). In the absence of an integrated business solution, profitability is typically analysed using gut-feeling and back-of-an-envelope type calculations, but true insight into margins is complicated to achieve.

At Kilfrost, the insight into margins resulting from SAP Business One has prompted management to review pricing in several areas. Campari also mentioned how SAP Business One enabled detailed and real-time profitability analysis. Georges Chasseuil from Campari stated that "it is critical to us to have a clear view of the profitability of each production batch. We can now instantly analyse waste and production losses and ensure that our production is as lean and streamlined as possible."

"We can now instantly analyse waste and production losses"

At Entertainment Trading, profitability per order and per product can now be determined instantly with SAP Business One. Furthermore, the company is now able to deploy new pricing models based on value as opposed to always marking up a purchase price.

The company is now able to deploy new pricing models

Superior Planning Capability

Several of the companies were able to leverage historic demand data in SAP Business One to accurately forecast future demand and set production schedules and inventory levels accordingly.

At Campari France, the fact that SAP Business One contains both inventory data and production data has significantly improved the company's ability to forecast delivery of a new order. CEO Georges Chasseuil explained: "We now have complete visibility of our raw material inventory and can immediately match the inventory to the material requirements of a new production order. So, rather quickly, we can provide a precise delivery forecast to distributors and internal customers. And as we act more professionally, we are rewarded with more orders."

"We can provide a precise delivery forecast to distributors and internal customers"

At Kilfrost, SAP Business One also meant significantly improved production planning. CIO Chris Blaxall stated: "We have automated raw material reorder processes, so that a certain inventory level automatically triggers a purchase order. Because we use historic data to plan inventory levels, including that of our distributed warehouses, we have reduced high-cost emergency purchases and emergency stock transfers dramatically. The result is much better cash management with short-term lending reduced to almost zero."

"The result is much better cash management with short-term lending reduced to almost zero"

Higher Efficiency and Scalability of Back-Office Processes

Most interviewees managed businesses in competitive industries with significant margin pressure. Yet most companies had experienced strong growth and were preparing additional growth.

Markus Alschner manages a rapidly growing Red Hat Linux distribution business. He said: "The tricky thing for us is to keep back-office functions as small as possible to protect our margins. Because we have created automated batch interfaces between our key suppliers and our customer, our back-office staff can manage high volumes of incoming and outgoing invoices — thousands of them every month. Interestingly, even as volumes have increased, we see fewer errors because the manual element has been reduced so much. In terms of our Linux distribution, we want to be able double and triple revenue without employing additional back-office staff."

"The tricky thing for us is to keep back-office functions as small as possible"

At Protea Coin Security, Pieter Smith saw significant improvements in the finance department: "We used to waste hours in our previous application trying to locate faults and errors. As a matter of fact, the most important result from the new system is the accuracy of the data — our financial reports actually balance now. Furthermore, the users love the ability to drill down into detailed transactions, which SAP Business One permits."

"The most important result from the new system is the accuracy of the data"

Mike Nielsen of Entertainment Trading saw business volumes double every year. "Suddenly we were generating 20,000 invoices every month, so we really needed automation. With SAP Business One, we use approval procedures to speed up administration significantly. Today, we only have to deal with exceptions, which could be exceptional discounts or low or negative margins. This ability to automate and support business growth is a key advantage of our new ERP platform."

"Today, we only have to deal with exceptions"

Support of Foreign Expansion

A surprisingly high proportion of small enterprises in Europe are in fact multinationals. Of the companies in this White Paper, Entertainment Trading and VDEL are present in several countries, but also Kilfrost and Campari sell to customers in many foreign countries.

A surprisingly high proportion of small enterprises in Europe are in fact multinationals

Of the seven companies, only Entertainment Trading had SAP Business One users in foreign locations. But all of the companies with foreign customers needed the ability to invoice in foreign currencies and possibly foreign languages; for example, English instead of Danish for Entertainment Trading.

LESSONS LEARNED

The interviewees were able to draw many interesting conclusions regarding their SAP Business One implementation projects with the benefit of hindsight.

Firstly, several companies concluded that implementing an integrated ERP application is different than a niche solution, which touches only one department. Chris Blaxall of Kilfrost said: "Don't underestimate your involvement and the involvement of line-of-business people in such an implementation. You need a full-time project manager, full stop. And your implementation consultant must have a very

"Don't underestimate your involvement and the involvement of line-of-business people in such an implementation"

solid understanding of your particular business. This requires lots of information exchange ahead of project start between the company and the consultant."

A second lesson was related to the early involvement and training of end users. Pieter Smith from Protea Coin Security said: "We have learnt the importance of buy-in from all users. In a previous ERP implementation, users basically only found out after the implementation and were therefore reluctant to use the system. This time round, we involved all relevant parties from the very beginning. The fact that the project was sponsored by a business executive as opposed to the IT department also accelerated end-user adoption."

"We have learnt the importance of buy-in from all users"

A third lesson learned was that hardware and hardware setup actually matters. At Snap Drive, the project team initially took a pragmatic approach regarding server and hardware. As Kaj Gundersen explains: "We learned our lesson from the performance problems that we experienced last year — don't save money on hardware. Dimensioning communications and database servers right is very important. Today, we manage 87 users with a server farm with one large 64-bit database server running Microsoft SQL Server and five servers running Citrix. Having dedicated servers has been our way of managing growth in users and data."

"Dimensioning communications and database servers right is very important"

FUTURE PLANS

Most of the companies have ambitious plans to evolve their ERP solutions. After getting accounting, invoicing, purchasing, inventory, and other base functions to work smoothly, many of the interviewees were eyeing new opportunities for automation.

Most of the companies have ambitious plans to evolve their ERP solution

VDEL wanted to integrate an online order tool for resellers directly into SAP Business One so that an order from a reseller would appear as an order in SAP Business One. Another priority was to leverage the new infrastructure to expand the distribution business with new offerings from new suppliers.

Snap Drive was looking to integrate its Web-based booking system directly into SAP Business One so that the workshop would have all scheduling information in real time in the ERP application. Snap Drive was also implementing a solution for invoice matching called iShare. iShare is preintegrated and certified for use with SAP Business One.

Protea Coin is currently in the process of implementing inventory management and warranty management using SAP Business One. Furthermore, the company is expanding the interface between an application for guard roster and alarms and SAP Business One.

Kilfroast planned to create a number of new reports in SAP Business One, in particular related to profitability and margin analysis.

KSW Microtec planned to create several new reports in SAP Business One related to supplier assessment. Such information will be used for supplier selection, price negotiation, and supplier development/feedback.

Finally, Entertainment Trading was engaged in multiple projects. The most important of these was the enabling of direct shipping of orders coming from resellers. Another project was to implement Crystal Reports on top of SAP Business One to extend reporting capabilities. Ambitions were high. As CEO, Mike Nielsen, explains: "We see

so many possibilities for new projects that we have hired a full-time programmer for SAP Business One."

Glossary

API — Application programming interface. API is a set of declarations of the functions of a computer program to support requests made by other computer programs. API reduces the complexity of tying two software programs together significantly.

CRM — Customer relationship management. CRM applications automate the customer-facing business processes within an organisation irrespective of industry specificity (i.e., sales, marketing, customer support and contact centre). Collectively, these applications serve to manage the entire life cycle of a customer, including the conversion of a prospect to a customer, and help an organisation build and maintain successful relationships.

ERP — Enterprise resource planning. ERP products are integrated business applications that could, in theory, automate an entire enterprise. ERP applications include at least a mix of accounting, inventory management and/or purchase/sales order processing, and industry-specific product planning and execution, services-related operations management or other product-related operations-management modules.

SDK — Software development toolkit. An SDK (or "devkit") is a set of development tools that allows a developer to create applications for a certain software package or framework. Common tools include debugging aids and other utilities often presented in a development platform. SDKs also frequently include sample code and supporting technical notes.

Web services. Web services are a set of standards (such as XML, SOAP and WSDL) designed to support interoperable machine-to-machine interaction over a network. Software applications written in various programming languages and running on various platforms can use Web services to exchange data over computer networks like the Internet in a manner similar to inter-process communication on a single computer. Web services are important components in services-oriented architecture.

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