

## WHITE PAPER

# Delivering the Business Value of Automating Business Processes to Small and Medium Enterprise

Sponsored by: SAP

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## EXECUTIVE SUMMARY

Enterprises of all sizes today face common problems dealing with handling increasing business complexity while reducing costs. The solution continues to be the automation of business processes. SAP is an established leader in addressing the needs of large enterprises. Building on that performance and identified best practices, SAP built and launched SAP Business One. SAP Business One was designed to offer small and medium businesses the same business streamlining and efficiencies at a scale and scope appropriate to their needs. IDC recently interviewed a number of companies that have successfully deployed SAP Business One. The purpose of our interviews was to determine what impact the software had on their productivity and cost reduction.

The companies interviewed were able to reduce their cost of operations for such functions as accounts receivable by two-thirds while significantly improving overall business process automation. Better purchasing and sales operations allowed one company to realize \$1.5 million in new revenue. Financial staff was able to increase their productivity by 45%. Altogether these companies have realized \$2.4 million in benefits at a cost of \$.458M. Over a three-year period IDC estimates that these companies will see a net present value (NPV) of \$109,364 per user at 12% and a return on investment (ROI) of 431% (See Table 1).

**TABLE 1**

Summary of Return on Investment (ROI) for SAP Business One

Annual benefit per user	\$55,301
Investment per user	\$25,367
Net present value (NPV) per user	\$109,364
ROI (total) = NPV/investment	431%
Payback = Investment/NPV	6.8 months

Source: IDC, 2004

## IN THIS WHITE PAPER

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### Introduction

Companies continue to automate business processes to achieve the goals of consistent quality and responsive customer service while eliminating cost inefficiencies. The SMB marketplace faces many challenges:

- ☒ Growing their revenue
- ☒ Controlling their costs
- ☒ Generating and disseminating accurate data
- ☒ Getting the right information in time to make a difference
- ☒ Meeting customer commitments and service level agreements
- ☒ Providing better customer experience
- ☒ Managing inventory
- ☒ Running an efficient and effective operation
- ☒ Meeting the challenges of change in their markets
- ☒ Optimizing their supply-value chains
- ☒ Integrating disparate point applications

SAP Business One software enables small and medium businesses to effectively and efficiently automate the following core operations necessary to run a successful business, including:

- ☒ **Administration** -- Provides tools that enable the customization and backup of critical data, define currency exchange rates, configure permissions and alerts, and access information from non-SAP software
- ☒ **Financial accounting** — Handles financial transactions, including general ledger, account setup and maintenance, journal entries, foreign currency adjustments, and budgets
- ☒ **Customer relationship management (CRM)** — Provides a solution that:
  - ☐ Connects front- and back-office functions into a single customer-centric operation
  - ☐ Enables collaboration across the value chain by providing access to relevant, personalized information from multiple data sources and business processes

- ❑ Connects employees, partners, processes, and technology in a closed-loop customer interaction cycle
- ❑ Delivers functionality throughout the customer engagement cycle providing the capabilities needed to manage marketing, sales, service, analytics, field applications, interaction centers, e-commerce, and channel partners
- ☒ **Sales and distributions** — Helps create price quotes, enter customer orders, set up deliveries, update stock balances, and manage all invoices and accounts receivables
- ☒ **Purchasing** — Manages and maintains vendor contracts and transactions, including issuing purchase orders, updating in-stock numbers, calculating value of imported items, handling returns and credits, and processing payments
- ☒ **Business partners** — Controls all the information on customers, resellers, and vendors, including profiles, contact summary, account balances, and sales pipeline analysis
- ☒ **Bank transactions** — Takes care of financial processing, such as cash receipts, check writing, deposits, advance payments, credit card payments, and bank reconciliation
- ☒ **Warehouse management** — Handles inventory levels, item management, price lists, special price agreements, transfers between warehouses, and stock transactions
- ☒ **Final assembly** — Delivers product production tools that define multilevel bills-of-materials and create work orders while it enables the verification and reporting of product and material availability
- ☒ **Controlling** — Enables the definition of profit centers and overhead absorption factors as well as generates profit-and-loss reports for each center
- ☒ **Reporting** — Creates powerful reports for nearly every aspect of an operation, including customer and supplier debt, credit history, sales, cash flow, customer-contact summaries, bookkeeping, warehouse stock, financial statements, pricing, customer activity, and more
- ☒ **Service management** — Optimizes the potential of service management departments, providing support for service operations, service contract management, service planning, tracking of customer interaction activities, customer support, and management of sales opportunities.

While not every company that we spoke with was using all of this capability, the richness of the available functions and process support were highly valued. Users felt that SAP Business One not only met today's needs but also positioned them well for the future.

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## The Companies

The companies in this study were U.S. based. More detailed information is included on two companies — a systems integrator and a food processor & distributor. Both of these companies have between 100–500 employees. The companies faced significant opportunities and challenges trying to manage their quickly growing operations while maintaining a competitive cost structure. In each case they selected SAP Business One to automate critical business operation and processes.

Both of these companies had SAP Business One in production for less than 12 months prior to the interview and were using some of the components. Both are planning on adding other components of SAP Business One over the coming months. The flexibility to prioritize component implementation was seen as a positive part of the SAP Business One value proposition.

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## SITUATION OVERVIEW

### The Big Challenges for Small and Medium Businesses Today

The roughly 8 million small and medium-sized businesses (SMBs) in the United States have become an increasingly attractive target market for providers of advanced technology products and services. IDC estimates that the compound annual growth rate (CAGR) for medium-sized companies will be 6% and 11.7% for smaller companies. While it is common to speak of small and medium-sized businesses as a single market, they are very diverse, varying considerably by company size and industry. Vertical market expertise is a vital part of strategic planning. IDC research indicates a number of SMB trends that the SAP Business One offering should be able to capitalize upon, including:

- Companies want to deal with companies that understand their specific industry needs. SAP's proven strengths and experience match well with the verticals with the top potential:
  - Business/other services
  - Retail
  - Construction
  - Wholesale
  - Healthcare
  - Manufacturing
  
- Budgets are typically lower, and delivery expectations considerably shorter, than those at the enterprise level. The cost-value proposition for SAP Business One seems to fit the budgets of the marketplace. Companies interviewed were in agreement that SAP Business One can be implemented quickly and easily.

- ☒ SMBs in many cases are less interested in technology and more interested in how software can help their business — many are simply looking to improve internal efficiencies through the automation of specific manual processes. The modularity, ease of use and reporting flexibility of SAP Business One fit this mindset.
- ☒ While focused on today, SMBs are interested in the future. It is important in such an environment to provide a solution that can be implemented quickly with the least amount of integration cost but that is robust enough to address more complex processes at a later date, if that time comes at all. All indications are that SAP Business One can deliver on both the needs of today and tomorrow.
- ☒ SMB's clients include both consumers and other businesses. SAP Business One offers the capability to handle both.
- ☒ The needs of SMBs are often as sophisticated and complex as those at large enterprises. Globalization trends, real-time integration with business ecosystems and the proliferation of wireless and mobile workers impact these organizations. SAP Business One offers solutions to these needs.
- ☒ Small and medium-sized businesses use an average of 6.4 software applications. SAP Business One components address many of the software applications used by this market segment in a single offering.
- ☒ Industry standards are preferred over proprietary platforms by SMBs. SAP's support of multiple server and desktop platforms will ensure and extend existing technology investments.

Automation and integration of business processes have been instrumental in enabling enterprises to grow revenue while streamlining operations. The real challenge for every business, regardless of size or industry, is to constantly make business operations better, more efficient, flexible, integrated, and reliable. On top of this challenge is the current shortage of resources that forces companies to be very careful how they spend their capital.

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## **IDC's ROI Methodology**

This study was conducted by interviewing companies regarding their business processes prior to and after the implementation of SAP Business One. These companies were identified by SAP. The study primarily focused on the costs to purchase, deploy, and support these automation systems and the impact these solutions had on the business operations automated by SAP Business One, the productivity of the users and the overall business.

### ***Analysis Methods***

#### **Benefits**

IDC quantifies the total business benefit by examining the dollar value of cost savings and additional revenue that occur in the following ways:

### *Budget Savings*

IDC measures five areas of reduction in actual hard costs associated with the operations of the department deploying the software.

- ☒ **Staff efficiency.** Automation enables the operational staff in direct support of other users or corporate support operations to do more with less and therefore downsize or redeploy staff or — in a high-growth environment — to postpone or eliminate additional hiring. The net result is an increase in the ratio of software users to staff. Cost reductions resulting from improvements in staff efficiency are based on the loaded annual salary (1.4 x salary).
- ☒ **Travel.** The enhanced ability to launch applications and solve problems centrally reduces travel costs.
- ☒ **Replacement of other business automation tools.** Tools and the costs associated with the ongoing internal support and upgrade of the replaced products.
- ☒ **Elimination of outsourcing contracts.** Improved reliability and automation enable staffs to perform at a higher level, and their companies can cancel outsourced support contracts.
- ☒ **Purchase avoidance.** Automated, integrated business process resources enable businesses to meet growing demands without adding systems.

### *Operational Productivity*

Operational productivity measures the direct result of automation — how IT staff use their time. By decreasing the time required to execute various operations functions, the software frees up managers and staff for more proactive, business-related activities that improve the quality of service. Quality of service is a difficult aspect to measure, so productivity is a "soft" benefit. The value is estimated as hours saved x loaded hourly salary.

### *Impact on Revenue*

Improving operations, even of a support function, can have a direct impact on a company's revenue. This may take the form of reducing lost revenue or shortening time to market and revenue recognition cycles or creating new products or services.

### **Deployment**

Because IT products require a deployment period, the full benefits of the product are not available during deployment. To capture the delayed impact of the benefits, IDC prorates the benefit on a monthly basis and then subtracts the deployment time from the first-year savings.

### **Investment**

Investment includes costs for initial purchase and installation to include all hardware, software, outsourced installation services; in-house time and training, which take

place in year zero; and three-year annual upgrades and changes and direct support and maintenance.

### ***Financial Methods of Computing Benefits***

For this model, IDC used the payback and net present value (NPV) methods for evaluating the return on investment (ROI). The NPV method calculates the value in today's dollars for the three-year returns on an investment. Payback period is the point at which cash flow exceeds investment. IDC uses a very conservative approach. Rather than discount the cash flow, we discount only the benefits (at 12%). The investment is not discounted; rather, it is treated as if it were all spent in the first year. Therefore, NPV is the discounted benefit less the total nondiscounted investment. ROI is NPV/nondiscounted investment.

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## **Results of the Study**

### ***Benefits to SAP Business One Users***

The primary benefit to the companies that deploy SAP Business One is to enhance the efficiency of the operations enabling the companies to not only do more with less but to improve operations at the same time. On average, companies were able to reduce their direct operational staff requirements by 43%. Not only were companies able to reallocate staff to other financial functions, but the staff productivity also increased and the staff that remained was able to complete their jobs in 45% less time.

For example, NextiraOne Federal, a systems integrator serving a federal government customer base, deployed all three components of SAP's financial accounting module. The software, in conjunction with improvements in NextiraOne Federal's financial operations, enabled NextiraOne Federal to reduce its accounts receivable staff from three people to one while improving the quality of invoicing a billing acceptance by 500%.

Another example is Variety Food Incorporated, a food producer and distributor, was able to grow its business by 15% without adding staff.

Not all benefits were quantifiable but will contribute to overall business success. All companies reported that SAP Business One demonstrated qualities inherently essential especially to small and medium-sized businesses:

- Easy to deploy (four to six weeks)
- Ease-of-use features that reduce or eliminate user training
- Excellent reporting capabilities
- Supports business growth goals

**Benefits to Business**

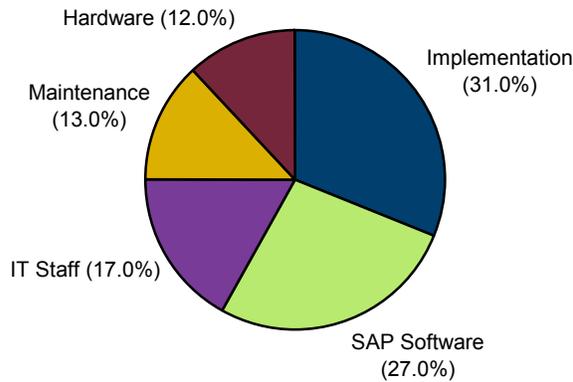
Not all companies realized a direct impact on their revenue as a result of the SAP Business One deployment. NextiraOne Federal, however, was able to fully automate its accounts receivables operations, reducing errors and streamlining the processes so that it was able to bill its government customers in a more timely and accurate manner. NextiraOne Federal greatly reduced its 90-day receivables and as a result recognized \$1,500,000 in additional savings.

**Average Investment in SAP Business One**

The full average cost for deploying SAP Business One included the purchase and installation of the server hardware and operating system software, the purchase or lease cost of the SAP application, an annual maintenance cost of 20% of the purchase costs, and the IT staff directly responsible for support (Figure 1). The estimated three-year investment required was almost \$460,000, which equated to \$25,367 per user. Another way of gauging the investment is that the annual investment came to about .2% of annual revenue.

**FIGURE 1**

Three-Year Average Cost for Deploying SAP Business One



Source: IDC, 2004

**Payback**

Companies were happy and had positive returns with SAP Business One. Payback periods as calculated by IDC vary from 6 to 19 months.

## CHALLENGES/OPPORTUNITIES

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### Challenges for SAP

SAP's value proposition for SAP Business One is solid today. Maintaining the value proposition in the future will require continued commitment and investment. The signs are that SAP has a long-term view and is backing that with the required resources. Serving a marketplace as diverse as SMB in different verticals will be challenging. While SAP is not alone in its pursuit of the rewards of the SMB marketplace, they are well positioned to address its needs. The challenges of margin pressure and support will pressure the business models of the SMB competitors. SAP has a great deal of experience and expertise meeting these challenges in the large enterprise arena. SAP Business One is a strong entry and should provide quite a challenge to its competitors.

SAP's success is based on knowing the large enterprise environment, but it has a limited history of selling into small companies. Moving into the SMB space will require new positioning and messaging that resonates with this new group of prospects. SAP Business One's capabilities when communicated to this audience should play well.

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### CONCLUSION

The SAP Business One customers interviewed were solidly behind the belief that they had made a good business decision. They had put in place a system to address their core needs and had every confidence that it would serve the needs of their future requirements. The choice of SAP Business One made by these pragmatic businesspeople was made from a perspective of knowing what their specific businesses needed to succeed. While wanting business solutions for business needs, they also appreciated that they were buying a technology platform to build their futures upon. SAP Business One met both of these requirements in their minds.

IDC believes that SMBs looking for new software solutions for their businesses should include SAP Business One on their short list of potential software solutions. SAP Business One offers solutions to meet the needs of today and tomorrow.

### CASE STUDY

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#### **NextiraOne Federal: Streamlining Accounts Receivable**

NextiraOne Federal is a systems integrator to the federal government. Headquartered in Herndon, Virginia, the operation serves as the federal arm for a group of Nextira One technology companies. NextiraOne Federal is chartered to focus exclusively on the federal government. Although the name is new, the company has over 40 years of experience serving the needs of different U.S. government agencies. NextiraOne Federal's 138 employees include a specialized "federal" sales force as well as a

specialized service and support organizations. They understand their niche market and serve it well.

### ***From Quote to Sales Order to Invoice***

NextiraOne Federal's recent merger with two other companies strained their existing systems. None of the installed software packages could meet NextiraOne Federal's needs. Duane Taylor, the CFO who was instrumental in the selection of SAP Business One, was not satisfied with the existing systems, especially the lack of relevant information and the amount of manual labor required to research contracts. He began his search for a better business system. NextiraOne Federal's parent company suggested the upgrade to SAP Business One. The parent company uses SAP R/3 to good effect. NextiraOne Federal evaluated four offerings over a two-month time frame and then selected and installed SAP Business One. This took place about a year and a half after the merger.

A product demo proved to NextiraOne Federal's financial team that it would support their current and future accounting and financial systems' needs. "The ability of SAP to offer a solution that fit both our needs and our budget was a pleasant surprise. The SMB offering — SAP Business One — was affordable."

Taylor was impressed that the installation only took 4 to 6 weeks, adding that it was "very smooth, surprisingly quick, and our questions were easily answered. American Express (NextiraOne Federal's system integrator) brainstormed with us for two or three days, went away, and came back with a system that looked familiar and facilitated the change of systems. The user-defined fields supported the use of our terminology. This was a plus when we took it to the end users for training. SAP and American Express took time to learn our needs," said Taylor.

NextiraOne Federal installed the following modules:

- Financial accounting
  - AR
  - AP
  - General ledger
- Sales and distribution (future implementation)
- Purchasing
- Business partners — partner price lists are stored and maintained on system. The price and parts lists are extensive, covering suppliers like Cisco, Nortel, and Sprint. United States General Services Administration (GSA) price schedules are also maintained on the system.
- Reporting (very strong and flexible)

Taylor describes the package as being able to "take us from quote to sales order to invoice."

### ***Benefits of the Package***

NextiraOne Federal executed several improvements in its business processes at the same time it deployed SAP Business One. Taylor insists that the benefits are a factor of both — each supporting the effectiveness of the other. The biggest gain was the ability to get information — specifically the end-of-fiscal period roll-up/reconciliation required by NextiraOne Federal's parent company. Prior to SAP the close took two to three weeks with people working overtime. Now it only takes three days within regular business days.

Because of the vast improvement in the financial administration, NextiraOne Federal was able to redirect assets used for accounts receivable. In the past, three people were used as collectors. Today one person performs those tasks. Taylor estimates this to generate a savings of over \$300,000 a year in just that one area.

Another positive impact was also in accounts receivable collection. NextiraOne Federal reduced the over 90-day aging amount by 500%. Their quality of invoicing supported bills that were accepted and paid without extended back and forth discussions and time consumption. "The government wants to get accurate bills that can be paid. If we have an issue, we can find the answers and resolve it," said Taylor. He estimates that the 90-day receivables were around \$15,000,000 and that the systems saved 10% of that amount. The alert system that supports the ability to set thresholds has been also quite helpful. The system supports management by exception and improves quality assurance of orders. "We have caught \$15,000 errors on a single order," added Taylor. Overall value is hard to quantify, but Taylor thinks it is substantial: "We save real dollars through the control improvement."

### ***Better, Faster, More Accurate Information***

The most significant impact on NextiraOne Federal's business was not quantifiable but clearly positioned the company for success. This was the facilitation of information flow internally and between partners and customers. Taylor cited the following improvements:

- ☒ Improved communication and reporting with vendor partners. Its five largest vendor partners (Cisco, Nortel, Sprint, Alcatel, and Avaya) account for over 200,000 line items in the databases, which can be accurately maintained and updated using SAP Business One.
- ☒ NextiraOne Federal can create custom reports that serve internal end users. Reports that might have taken four hours or longer in the past now take less than an hour.
- ☒ Provide management reports on top customers with the ability to look at their revenue and even drill down to the level of the products they purchase improves decision making for NextiraOne Federal. "We can now find out who is giving us business and what they are buying."
- ☒ Responsiveness — "We can turn orders around more quickly...we can give answers more quickly...we are just more responsive due to SAP Business One and our other process improvements. Response time is 2x faster."

- ☒ By linking sales orders and purchase orders, redundant data entry is eliminated, saving time and reducing errors. In addition, NextiraOne has increased visibility into all the transactions related to a customer's specific job.

### ***How SAP Business One Supports Company Strategic Imperatives***

Over the last year, NextiraOne Federal has been able to move up the food chain and position itself as a prime contractor rather than a subcontractor. This has been accomplished by significant improvement in its overall operation. This constant improvement is an active program, and SAP Business One was part of that improvement process.

Taylor stated: "Growth is our strategic imperative — scalability of SAP Business One will support our growth in the future. The system can grow with us, and we will have less pressure to expand staff to meet our needs."

### ***Conclusion***

SAP Business One has made major contributions to NextiraOne Federal's corporate goals. It is able to serve both external and internal customers more effectively and efficiently.

## **CASE STUDY**

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### **Variety Food Incorporated: Meeting Today's Challenges and Positioning for Future Opportunity**

Variety Food Incorporated is a family-owned business and has been in operation since 1928. Variety Food Incorporated produces and distributes snack foods — primarily nuts — in 14 states, predominantly in the Midwest. Headquartered in Warren, Michigan, it distributes its snack food products directly and indirectly through 140 distributors. A fleet of 40 trucks is used to deliver product. Customers demand service and have other options if this demand is not met. Processes and systems are designed to meet internally developed service level agreements. These "contracts" drive Variety Food Incorporated's success in its demanding market.

Producing a perishable item to the highest standards and assuring that consumers are satisfied with not only the product but with the services they receive require commitment. Variety Food Incorporated's reputation is based on that commitment.

### ***SAP Business One Selection***

The selection of SAP Business One supports Variety Food Incorporated's product and service goals. SAP's implementation partner, BM Associates, replaced a system that had been in place for 14 years. Over those years, revisions and updates, which at times were costly and tedious, allowed that system to meet Variety Food Incorporated's needs.

Internal and external dynamics caused Variety Food Incorporated to examine the fit of the installed system to its current and potential requirements. Working with a BM Associate consultant, it decided to change to SAP Business One.

According to George Champagne, vice president of operations, "The demo clinched the deal. The system design was clean...easy to learn and quickly use effectively...the users wanted the system ASAP."

### ***SAP Business One Utilization***

Variety Food Incorporated is currently using the following SAP Business One components:

- Administration
- Financial accounting
- Sales and distribution
- Purchasing
- Bank transactions
- Warehouse management

More components will be implemented in the future.

The positive feedback from operation's staff, internal management, and direct and indirect sales reinforces Variety Food Incorporated's decision to implement SAP Business One. When asked for the top benefits realized by the use of SAP Business One, Champagne stated:

- "Ease of use...we post information, once and it populates the system. We save time and reduce errors..."
- "Increased revenues...our sales people have the answers to customer questions...they have the information needed to get orders...not having information can mean a lost order..."
- "Improved reporting...solid reports...quickly and effectively...we get timely and accurate information in a format that is usable by different groups...we have increased control and increased visibility of our business...better information about our customers, our products, our sales..."

### ***Business Justification***

Using a combination of increased efficiency and cost avoidance, the system should pay for itself in 10 to 12 months. Each of Variety Food Incorporated operators is saving an hour and a half a day. This means that more time is available to support the service needs of internal and external customers. Even higher customer and distributor satisfaction will mean higher revenue. They are doing more with the same staff and will be able to support the increased revenue and volume without having to

add staff in the near future. SAP Business One's flexibility will support other potential expansions of Variety Food Incorporated's business model.

***Conclusion***

Variety Food Incorporated is more than satisfied with its decision to implement SAP Business One. The current benefits and the positioning for the future reinforce that it was the right decision. SAP and SAP Business One are a good fit for this service-oriented organization.

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