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SMB Group
Actionable Market Insight

From Aspiration to Achievement:
ERP for Growing SMEs

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KEY HIGHLIGHTS

- Small to medium-sized enterprises (SMEs) often have sophisticated and industry-specific business processes and IT needs, but must address these needs with relatively small budgets and IT staffs.

- ERP solutions that can't change with rapidly evolving and demanding requirements can inhibit rather than facilitate company growth.

- SAP Business All-in-One solutions give growing SMEs an affordable and rapid-to-implement way to gain "professional-grade" ERP capabilities and SAP's best-practice business processes.

Small to medium-sized enterprises (SMEs) can find themselves caught between a rock and a hard place when it comes to putting the power of technology solutions to work for their businesses. To grow and prosper, they must often overcome the same challenges faced by their large competitors, including global competition, complex regulations, evolving operational processes and product diversification. SMEs, however, must meet these challenges—and capitalize on these opportunities—with budget and staffing resources that pale in comparison to those of their enterprise counterparts.

To reach their goals, growth-oriented SMEs need to tap a powerful IT solution that has become a large company mainstay: enterprise resource planning (ERP) software. Replacing a collection of disparate, incompatible business solutions with a comprehensive ERP system can provide SMEs with the launch pad for long-term growth, competitiveness and success.

But the relatively high costs and operational complexities of enterprise-class ERP systems can seem beyond the reach of many SMEs. As a result, it can be tempting to settle for a lighter-weight ERP system. But as the business trajectory accelerates, that system may not be able to keep pace—and once again, the business needs to seek a more capable alternative.

But it doesn't have to be this way. As we discuss in this paper, SAP Business All-in-One solutions can give growing SMEs a streamlined, affordable way to deploy SAP's enterprise-class ERP today while getting the running room they'll need for tomorrow.

In this paper, we examine the business goals and needs that lead SMEs to seek out an ERP solution, and the experiences and criteria that come into play when evaluating an ERP solution. Throughout the paper, we discuss the experiences of several SAP Business All-in-One customers, including their reasons for choosing this software, their experiences in deploying and using it, and the business benefits they've realized through its use.

SECTION 1: GAINING THE EDGE—REQUIREMENTS FOR THE GROWING SME

Despite the size of their businesses, there is nothing "small" or "mid-sized" about the business objectives or IT requirements of growing SMEs. In many ways, these companies are indistinguishable from their enterprise counterparts from an operational perspective. In fact, the growth potential of these SMEs often outstrips that of the Fortune 500.

But to achieve this potential, they can't take a cookie-cutter approach to running their businesses. They need the tools to effectively manage supply chains and distribution channels, customer relationships and human resources. SMEs also need solutions tailored to the specific requirements of their industry sectors and markets. Product-centric SMEs, for example, need to handle manufacturing processes and inventory as efficiently and effectively as possible. Service companies must make sure that they are staffing, costing and managing operations to attain margin goals and achieve high levels of customer satisfaction. And all companies must get the business insights they need to outrun the competition.

To level the playing field and compete with the big boys, SMEs need to have the best IT solutions and process improvements in their arsenals. Existing IT systems and business processes that were once adequate can quickly become overwhelmed when companies grow rapidly—which can seriously undermine the growth itself.

Having sound and consistent data, a unified view of the business, effective and efficient business processes, and the ability to collaborate well internally and externally are essential to achieving business goals. In a volatile business environment, SMEs also need IT systems that facilitate adaptation rather than hinder it.

"When you're growing at 20%, 30%, 50% a month, as we are, there are so many factors you need to stay on top of.... And the only way you can get that kind of reporting in real time is to have information technology that is robust across your entire company."
— Guy Paproski, President, Nuestro Queso LLC

High-performing midsize companies with revenue growth of more than 10% annually are adopting ERP and business analytics solutions more rapidly than businesses with average growth (revenues increasing between 1% and 10% annually) and laggard growth (companies with flat or negative growth), as shown in **Figure 1**. Average-growth companies are more likely to turn to these solutions to better position themselves for higher growth in the future.

Figure 1: Adoption of ERP and Business Analytics Solutions by Midsize SMEs
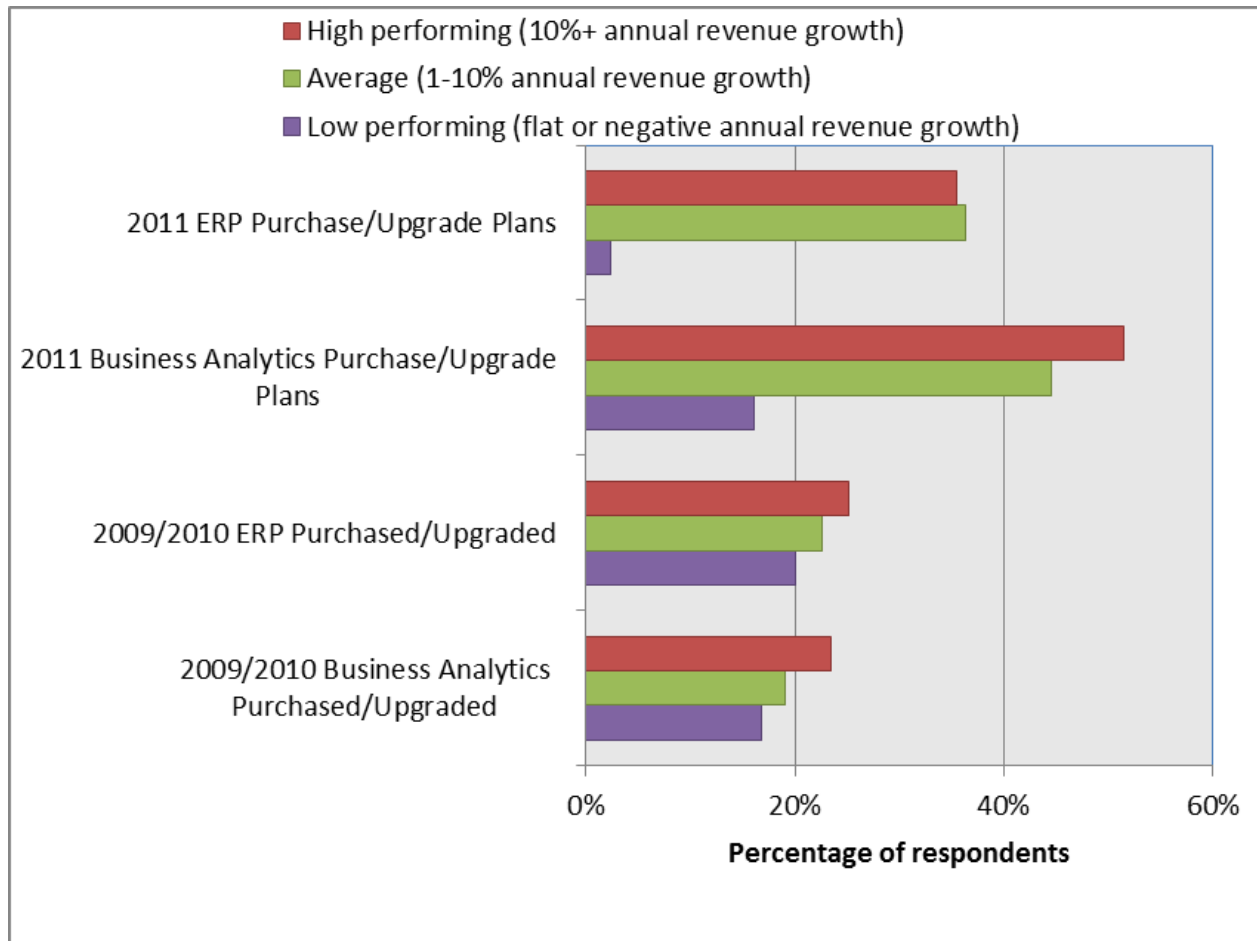
Source: July 2010 SMB Group SMB *Routes to Market* Study

A strong ERP system can give SMEs the foundation they need to achieve these broad objectives and the more discrete business goals that they embody. **Figure 2** depicts several common challenges and needs that SMEs face, and how the right ERP solution can help companies meet operational requirements.

Figure 2: Common SME Business and IT Needs, and ERP Software Benefits

SME Challenges	ERP Software Benefits
Reconciling disparate, incompatible and/or limited function legacy systems from organic growth or acquisitions	A common and capable platform for all core business operations
Rationalizing distributed, inconsistent and/or out-of-date corporate data	Support for "single-version-of-the-truth" data that can be shared across departments, and with key partners and customers
Meeting regulatory requirements, including those specific to vertical industry sectors and different countries	Provides integral regulatory compliance and reporting functionality
Inadequate IT systems constrain growth	A multifunction and scalable platform that can keep pace with, and facilitate, company growth
Inconsistent and/or inefficient business processes, which are labor intensive, time consuming and error prone	Standardization and automation of core processes; templates for best practices; tracking of key performance indicators
Global expansion, which requires currency conversions, financial consolidations and roll-ups	Built-in support to track exchange rates, convert currencies and consolidate financials
The need to interface easily with other IT software and systems	Support for standard interfaces to most commonly used software and systems, including mobile devices
The need to diversify with expanded product or service portfolios	Tools to track product SKU inventory, shipment logistics, service delivery, etc.

Source: SMB Group, 2011

One roadblock SMEs frequently face is being hamstrung by under-performing, non-integrated and labor-intensive legacy IT solutions. Many still rely on siloed Excel-based spreadsheets for financial budgeting and reporting, or entry-level accounting software that comes up short in terms of the capabilities or flexibility required to get the job done. As a result, they implement cumbersome work-arounds. Without consistent, automated processes, day-to-day operations suffer and decision-makers may not get the clear, consolidated view of the business that they need.

Growing companies often face the challenge of reconciling incompatible ERP systems that they've wound up with via acquisitions, or because different business units made independent purchasing decisions. Animal health and feed products distributor Lextron, for example, found itself with three different ERP systems and more than 700 employees as it grew by acquiring other firms. "These multiple ERP systems made it difficult

to leverage economies of scale," says Tim Hays, Lextron's director of IT, "and to control inventory and manage logistics. Sharing customer data was frustrating and nearly impossible. We knew we needed a common ERP platform and a shared solution."

Lextron decided to implement an SAP Business All-in-One ERP solution along with SAP BusinessObjects Edge Business Intelligence. Together, these solutions give Lextron the consistency and clarity necessary to run the business more effectively. By improving customer service, inventory management and sales operations across different divisions, Lextron can operate "as a unified company over all Lextron locations, product lines, and customers." The SAP ERP solution has also freed the company to focus its resources in other areas, Hays says.

> *"With SAP software as a basis for managing your business transactions, where you know the transactions are going to work, you can now concentrate on the things you can do that provide value to the selling organization and to your customers."*
> *— Tim Hays, director of IT, Lextron*

SECTION 2: ERP MUST-HAVES AND GOTCHAS

The catch is that SMEs can't match the financial or the deep IT bench strength of large enterprises. Consequently, when SMEs evaluate ERP alternatives, they need to consider several factors, as noted in **Figure 3**, to ensure that realities and expectations align with their desired results.

STAEDTLER Mars GmbH & Co. KG of Nuremberg, Germany faced many of these issues when it decided to replace its heterogeneous mix of IT systems in different international locations with a common ERP platform. As a leading manufacturer and distributor of writing, drawing and creative products, STAEDTLER needed a standard solution—including consistent business processes—that could be easily rolled out in more than 150 countries, but also adapted as necessary to local requirements. "We needed seamless and transparent control over our business," says Max Treiß, the company's CIO.

Figure 3: Key Questions and Evaluation Checklist for SME ERP Solutions

✓ Does the ERP software span all of the areas we need addressed, and can we easily expand and enhance it to support company growth and future needs?
✓ Is the ERP software affordable for our company?
✓ What's the learning curve, both for IT and for end users?
✓ Can and how do we integrate the ERP software with existing IT systems?
✓ Does the ERP solution support different deployment models, including both on-premises and hosted alternatives?
✓ Does the ERP vendor have a proven track record and a strong industry reputation? Is the vendor continuing to invest in the ERP solution we are considering?
✓ Can the ERP solution be designed, deployed and delivering value in the time frame we need, without disrupting ongoing business activities?
✓ Does the ERP software provide integral support and guidance to help our company implement best-practice business processes?
✓ Does the ERP vendor have partners that can provide design and deployment assistance, any necessary customization, and ongoing service and support in the locations where we need them to be?

Source: SMB Group, 2011

> *"We are 100% committed to our SAP solution because it enables us to implement integrated and streamlined processes. By completing the global rollouts, we gain a real competitive edge."*
> *— Max Treiß, CIO, STAEDTLER Mars*

STAEDTLER selected an SAP Business All-in-One solution, focusing on four key process areas: sales and order processing, production, warehouse management, and financial accounting and controlling. SAP software systems form 80% to 90% of the basic platform at each branch location, and STAEDTLER's core processes are now harmonized and globally transferrable. As a result, individual rollouts take only four to six months to complete—and STAEDTLER has reduced its maintenance costs by 25%.

Beyond high-level considerations, each SME will have specific "must-have" business and IT objectives. For example, U.K.-based LDH (La Doria), a 60-employee canned and dried food supplier, faced demands from its retailers to provide them with more visibility into and control of the shipping pallets that LDH was sending them. "Our legacy system could not provide this visibility, nor did it enable us to run efficient logistics," explains Paul Nicholas, logistics director for LDH.

LDH subsequently deployed an SAP Business All-in-One solution and now, once a pallet has been shipped to a customer, LDH can track batch numbers by pallet. LDH has also realized other benefits, including a better forecasting capability, automatic report generation, granular margin analysis for each product it handles, and the ability to accurately calculate the cost of goods imported from different countries using different currencies.

"With our SAP Business All-in-One solution, we are in control of our stock on a pallet level, which gives our retail customers the utmost confidence in our stock integrity."
— Paul Nicholas, logistics director for LDH

SAP Business All-in-One customer Ego Pharmaceuticals also had a legacy system that couldn't keep pace with requirements, many of which were driven by Ego's aggressive international expansion plans. The Australia-based manufacturer employs 250 people and sells more than 100 skin health and skin-disease treatment products. It aims to generate one-half of its sales from international markets by 2020, and must comply with a variety of demanding health and consumer regulatory requirements in the countries in which it sells products. Adding to its challenges, the company was struggling with a large number of labor-intensive business processes, lacked a common source of integrated corporate data, and needed an ERP solution that would work well with existing IT systems.

"We chose an SAP Business All-in-One solution for its strong, process-driven support that covers procurement, manufacturing, warehousing, and everything in between," says Alex Vörös, Ego's quality assurance manager and project manager for the SAP implementation.

"The [SAP Business All-in-One] software incorporates many of the best practices in our industry, supports multiple languages and currencies, and requires little development effort on our part…. The software integrated smoothly with the existing Microsoft databases used for shop-floor documentation, which were key gateways to many other types of information, such as product labeling."
*— Alex Vörös, quality assurance manager, Ego Pharmaceuticals*

The company launched a rigorous change management program and has since modified more than 250 of its operating procedures to make them more efficient and effective. "Our new software has helped us implement robust processes across the organization—from international marketing to managing our point-of-sale materials and to accounting, sales support, and more," says Ego managing director Alan Oppenheim.

SECTION 3: SAP BUSINESS ALL-IN-ONE—THE ENTERPRISE-CLASS SOLUTION FOR GROWING SMES

SAP Business All-in-One solutions draw directly from SAP's portfolio of proven enterprise software and best practices expertise. The "SAP Business All-in-One" label doesn't refer to a single product, but to the more than 800 industry-specific solutions that partners offer SMEs under the Business All-in-One brand. Each solution is priced, configured and optimized to meet specific SME requirements (**Figure 4**). SAP ERP, SAP Best Practices and SAP NetWeaver, the vendor's standards-based technology platform, which supports web-services-based composite applications, are at the core of every SAP Business All-in-One solution.

Figure 4: SAP Business All-in-One Solutions
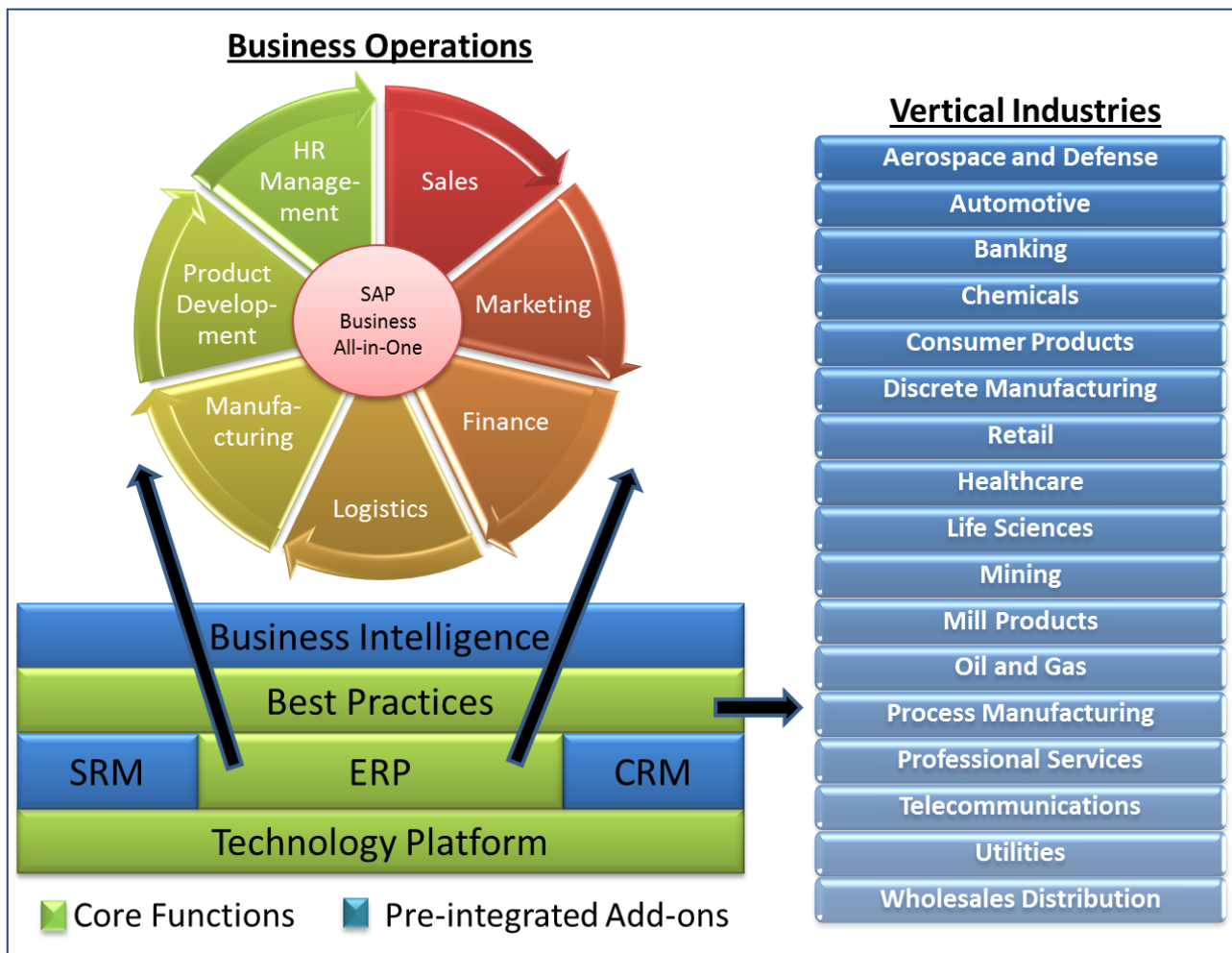
Source: SMB Group and SAP, 2011

Core business processes supported by SAP Business All-in-One software include:

- *Accounting and financials*, to create accurate financial statements and integrate all operative transactions throughout the organization

- *Sales and service*, to meet customer requirements, support the order-to-cash process and provide after-sales support

- *Purchasing and logistics*, to control and manage costs and logistics cycles

- *Inventory management*, to track quantity, value and movement of inventory in real time

- *Human capital management*, to manage employee changes and payroll processes

- *Manufacturing and product development*, to improve the product lifecycle process and manufacturing operations

- *Reporting and analytics*, to plan, measure and manage organizational processes more effectively

- *Corporate services*, to decrease administrative costs, gain visibility and meet corporate, legal and regulatory requirements

Each SAP Business All-in-One solution contains the same SAP ERP software that the vendor sells to enterprise customers. But, SAP provides and tailors ERP modules in each solution to give SME customers the functionality most relevant to their needs, helping to speed implementation and training times. With the full functionality of SAP ERP "under the hood," different modules can be turned on or off as needed to fine-tune the solution to each customer's specific industry or business process requirements.

"SAP is an established brand in the marketplace, offers the scalability we needed to keep pace with changing requirements, and has a proven history of longevity. We felt confident betting our future on an SAP Business All-in-One solution."
— Mark Anson, IT director, LDH

This also means that customers don't have to worry about the software's ability to scale with them. As the business grows and as needs change, companies can turn on additional functionality to meet new demands.

SMEs often need guidance and business process expertise as well. To assist here, each SAP Business All-in-One solution includes a partner-selected subset of SAP Best Practices, which are embedded process "blueprints" for more than two dozen vertical industry sectors, from automotive to wholesale distribution. SAP has also produced cross-industry packages of best practice blueprints to help customers perform a range of core functions including business intelligence, data migration, human capital management and many more. By using these embedded best practices, SMEs benefit from "lessons learned" from other SAP customers, sparing them from "reinventing the wheel" and from unnecessary mistakes.

Many Business All-in-One solutions also include dashboards and other business analytics capabilities tailored to industry requirements. Based on SAP BusinessObjects Edge technology, these built-in capabilities are often adequate for SME analytics requirements. However, SMEs with deeper business intelligence requirements can integrate the complete SAP BusinessObjects Edge BI software with SAP Business All-in-One. Customers can also add SAP Supplier Relationship Management and SAP Customer Relationship Management to their solutions as required.

SAP partners offer services designed to make the evaluation and implementation process easier as well, including the SAP Business All-in-One fast-start program. In the first step of the program, potential customers input their specific needs and business scenarios into an online solution configurator, and get instant scope and pricing estimates for required SAP software, optimized hardware and implementation services.

By pretesting, pre-integrating and preconfiguring the various software components of SAP Business All-in-One, the fast-start program reduces complexity and risk, cuts licensing and implementation costs, and speeds deployment times.

SECTION 4: FROM ASPIRATION TO ACHIEVEMENT

The SAP Business All-in-One fast-start program has helped alleviate the fears that many SMEs have about expensive and problem-plagued ERP deployments. Thousands of companies in nearly 50 countries have used the fast-start program.

For instance, the SAP Business All-in-One fast-start program enabled GreenBlue Inc., an eight-employee Canadian company that makes energy-saving devices for diesel engines, to rapidly deploy Business All-in-One at Invotronics, a company that it had acquired. Working with SAP partner CONTAX Inc., GreenBlue determined that SAP software would be a good fit for its business and budget, and subsequently had sales, procurement, materials planning, production scheduling, warehouse management and financials capabilities up and running in four weeks.

"I was shocked when our consultant put SAP on the selection list…we're a start-up, we haven't got much money and we don't have a lot of time. But I quickly found out that SAP was cost-effective, could be installed quickly, and that it could help launch a small business…. We were very pleased with how things turned out."
— Earl Hughson, president and CEO of GreenBlue

SMEs also fear business disruptions when deploying a new ERP solution. Some of LDH's retail customers, for example, worried that the food supplier's implementation of SAP Business All-in-One would create significant delays. "To allay [customer] fears, we created a dedicated implementation team, developed a detailed project plan and contingency plan, and went through multiple testing phases before going live," says Mark Anson, IT director at LDH.

Then there are the SMEs with hardly any IT resources and no desire to build extensive IT infrastructures. That was certainly the case for Nuestro Queso LLC, an Elk Grove, Illinois manufacturer and distributor of specialty Hispanic cheeses. Having just launched its operations in June 2009, Nuestro Queso was more of a start-up than an SME, but it knew from the beginning that it needed an enterprise-grade ERP capability to support the speedy growth it anticipated.

"We went live with no issues. In fact, one retailer said it was the smoothest implementation it had ever taken part in."
— Mark Anson, IT director at LDH

But Nuestro Queso had no interest in staffing and equipping a large IT department of its own. Instead, it chose another SAP Business All-in-One deployment option that SAP and its partners offer: a hosted implementation. Nuestro Queso contracted with SAP partner Optimal Solutions Integration to provide Nuestro Queso with an outsourced, subscription-based implementation of SAP Business All-in-One. Optimal manages and scales the system to keep pace with Nuestro Queso's growth, which has proved to be head-spinning—from a zero to $20 million run rate in its first full year of operation.

SAP Business All-in-One is designed to help SMEs with big goals get into new markets, improve their operational efficiency, close sales faster, reduce inventories and meet their business objectives without vast financial or IT resources. **Figure 5** depicts several examples of SAP Business All-in-One customers, and some of the business benefits they have realized.

"We support the software, we provide functional support, we host them, we do everything. Nuestro Queso has no IT people and no IT infrastructure and yet leverages SAP to best run their business and achieve their tactical and strategic goals."
— Elliott Garofalo, senior vice president, Optimal Solutions Integration

Figure 5: SAP Business All-in-One Customers and Business Benefits

SAP Business All-in-One Customer	Business Benefits Realized
Ego Pharmaceuticals	• Replaced most of 650 spreadsheets previously used to convey information • Produces granular monthly productivity statements for individual products and markets • Improved more than 250 business procedures • Supports unique product identifier numbers to drastically reduce shipping errors
GreenBlue	• Closes books in one day versus one week • Accesses information in minutes versus days • Adjusts production-to-order changes in one day versus several days • Has improved support for better, faster decision-making
LDH (La Doria)	• Predicts 10-week goods, receipts and sales with 95% accuracy • Provides granular tracking for pallet and product shipments • Reduced inventory by 25% • Improved inventory accuracy average to more than 99.5%
Lextron	• Consolidated from three ERP systems to one • Reduced inventory by 15%, saving $2 million • Cut inventory supply from 45 days to 30 days
Nuestro Queso	• Deployed the solution in nine weeks • Achieved growth of 20% to 50% in its first year of operation • Tracks and manages the 60% of its invoices that are paid for in cash
PinguinLutosa	• Replaced numerous legacy systems with a single ERP solution • Reduced days sales outstanding by 32% • Increased operating revenue by 22%
STAEDTLER Mars	• Eliminated 90% of legacy production systems • Reduced maintenance costs by 25% • Reduced the number of interfaces by 50% • Increased order fulfillment rates by 20%

Source: SMB Group, 2011

SECTION 5: SUMMARY AND SMB GROUP PERSPECTIVE

Over the years, a certain mythology has grown up around ERP systems, painting them as inordinately expensive, unduly complex and sometimes simply more trouble than they're worth. Although modern ERP systems have overcome virtually all of the problems that initially gave rise to these perceptions a decade or more ago, many customers still tread cautiously into ERP territory. That's especially true for SMEs, which can ill afford investing in software that proves too expensive to obtain and maintain, may be difficult to operate, and may ultimately fail to scale with and support their rapid growth.

SAP Business All-in-One solutions have an impressive track record of dispelling the negative perceptions people hold about ERP, and of delivering enterprise-grade ERP functionality to the SME market. SAP has achieved a good balance that blends its established ERP capabilities and reputation with configurations, programs and policies that are fine-tuned to meet the needs of SME customers.

As important as the ERP software itself is the best practice and business process expertise packaged with it. SAP is unmatched among ERP vendors in its understanding of dozens of vertical industry sectors, and its large partner community adds even more to this industry expertise. SME customers who implement an SAP Business All-in-One solution don't just obtain a powerful and scalable ERP platform, they also gain proven business practices that can greatly improve operations, competiveness and profitability. The many ways in which SAP Business All-in-One can deliver business value are reflected by the customer examples cited in this paper.

ERP deployments should never be approached lightly, as the software they embody operates at the heart of a company's core processes and business functions. But SMEs whose doubts about ERP solutions cause them to rely too long on inadequate legacy software and inefficient business processes will find it difficult to keep pace with other SMEs—as well as with enterprises—that leverage capabilities such as those delivered by SAP Business All-in-One.

SMB Group, Inc.

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