



SAP's SMB Prognosis: Part 1 — The Business of Business One

Enterprise Application Strategies

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During the past 18 months, SAP has been regrouping to attack the small and medium business (SMB) market. It has built a division wholly focused on this segment, staffed it with people who have SMB experience, and built a new go-to-market model. In addition, SAP has two distinct product offerings: Business One and All-in-One. Of these, Business One is likely to propel SAP into a broader market. But the architectural difference between it and SAP's mySAP Business Suite and mySAP All-in-One products mean that customers must carefully assess their future requirements for next-generation application infrastructure platforms.

Should three letters be all that is available to describe feature-rich, complex, costly, enterprise-class business applications, most people would chose S-A-P. Perhaps no better validation of vendor interest in the SMB market exists than the fact that this German software giant has aimed its sights squarely in this direction. SAP is expecting its SMB efforts to deliver 15% of the company's revenues within 18 months, with a long-term expectation that this will double (though some geographies will have to carry higher percentages of SMB product sales than average). Currently, in terms of raw customer numbers, SMB customers constitute approximately 35% of the total customer base. Based on YE03 software license revenues of €2.1 billion and an average yearly growth of 10%, this becomes approximately an €840 million opportunity. This is a significant opportunity in itself and in many ways has been business SAP left for the smaller, SMB-focused application vendors.

SAP's SMB approach is essentially divided along two product lines: Business One and All-in-One. Architecturally, these products are vastly different. Business One is a client/server Microsoft-only solution originally obtained from the acquisition of TopManage. All-in-One, though delivered as "microvertical" solutions, is mySAP Business Suite. Although these two products are represented under a single SMB banner, the reality is that the models around pricing and sales channels are different as are the strategic challenges both face. Regardless of product distinction, SAP is distinguishing itself as a thought leader in the SMB space. TopManage, for example, was no knee-jerk acquisition; it was a calculated decision based on an understanding that scaling down mySAP Business Suite alone was not the most effective route to SMB success. This sets SAP apart from Oracle and, to a lesser extent, Siebel, whose SMB strategies are primarily efforts at repackaging its enterprise offerings. To an extent, it also distinguishes SAP from Microsoft Business Solutions, whose rampant acquisition strategy from 2000 to 2002 has left it without a cohesive message to the SMB market.

Furthermore, a range of out-of-the-box thinking around product design, distribution, and pricing models is proving that SAP is considering rewriting the rules of engagement that have defined the SMB applications market. 2004 will be a formative year for SAP's Business One efforts as new partnerships are established, existing partnerships begin to execute, and marketing is ramped up. During 2005, SAP will be firmly established in the SMB market. However, ongoing success in what will become an increasingly competitive market will hinge on SAP's ability to tightly couple Business One with its mySAP Business Suite.

Considering the design of Business One, it is clear that the product is a departure from what people have come to expect from SAP. To start, Business One is an integrated application. There is no attempt to create separate functional modules, as is

META Trend: During 2004/05, post-"go live" ERP organizations will focus on total cost of ownership, value delivery, usability, continuous business improvement, and targeted extensions (e.g., supplier relationship management, channel management). ERP vendors will offer enhanced post-implementation services to maturing ERP customers. During 2004-07, ERP vendors will redouble their efforts to penetrate the midmarket, competing more aggressively with Microsoft and a shrinking set of small ERP vendors. By 2007, ERP vendors will embrace Web services to support inter-enterprise integration.

common in the market. Instead, the product integrates general ledger, sales, purchasing, banking, inventory, costing, and customer relationship management (CRM) into a single two-tier application supporting Microsoft SQL Server, DB2 Express, and Sybase databases. Business One is licensed on a per-user basis for the entire functional set. Access to the different capabilities of the product is done by linking functionality to roles and then assigning users to the roles. SAP will continue to add functional breadth to the product (manufacturing to be added next), but Business One users ultimately must make concessions as to the depth of functionality delivered directly by the company. The design principle of Business One is based on the reverse-Pareto model: finding the 20% of functional requirements that 80% of organizations need. However, it is important for potential customers to realize that the value of an integrated application is directly proportional to the extent of its use. Deploying Business One across narrow functional bands (e.g., GL for the accounts department, sales/CRM for sales) is more expensive than doing so with dedicated point applications. On the other hand, the more an organization stitches together the functional capabilities of product, the less expensive and complex it is than sourcing a host of separate product modules.

SAP's strategy to deliver increased product capability hinges on a go-to-market model heavily dependent on third-party resellers. Although the product kernel is not provided to its partner community — obviating an OEM model — Business One does include an SDK that partners can use to value add the product. Because the partner network is so tightly linked to SAP's vision of how the product is presented, customers must carefully assess these organizations against their service capability, commitment to R&D, and their adherence to consistent engineering standards (see Delta 2939). We believe that SAP's R/3 installed base, quality-versus-quantity approach, and the quality of Business One as a product will drive a rapid partner uptake. However, customers should expect a culling of partners by mid-2005 as SAP seeks to ensure the quality of the Business One channel.

Business One's relationship with SAP's NetWeaver strategy is significant. We have predicted that by 2005/06, enterprise application vendors (e.g., ERP, CRM, supply chain management) will completely modernize their applications and base all interfaces on Web services, adding the required workflow and process-control mechanisms to manage the flow of Web services calls. NetWeaver is SAP's brand for the collection of underlying technology components that create this application backbone (see Delta 2614). Business One, however, is not now, nor likely ever will be, built atop NetWeaver technology. SAP is managing the gap between these architectural differences by linking Business One to mySAP Business Suite through an integration toolkit. Where interconnections between organizational entities are needed, mySAP Business Suite and Business One work as a hub-and-spoke model. This strategy will be appeal to SAP customers who will rightly see Business One as a rapid and low-cost alternative to creating multiple instances of their SAP implementation or dealing with complexities of moving everyone to a single instance. To facilitate this model, SAP is building linkages through XI between Business One and mySAP Business Warehouse and mySAP Enterprise Portal.

The weakness of the hub-and-spoke model is how the spokes interact in the absence of the hub. So for some self-contained SMBs — particularly those that understand the connection between service-oriented architecture (SOA) and adaptive IT architecture — Business One might be a less compelling solution than those from vendors committed to modernizing their SMB products. This competition is likely to flow from vendors like Epicor, Frontrange Solutions, and, over the longer term, Microsoft Business Solutions — companies that are committed to Microsoft .Net-based SOAs. In these situations, SAP will compete with its other SMB product, All-in-One.

Bottom Line

SAP's Business One is a well-designed, integrated application that will have broad market appeal across two key segments. First will be SMBs seeking a strong brand name and tending toward a static business environment. Second, and most significant, will be smaller business units and subsidiaries of Global 2000 SAP customers. These organizations will use Business One as a rapid and low-cost alternative to a separate instance of SAP mySAP Business Suite or where the consolidation to a single instance results in a significant loss of local control.

Business Impact: SAP Business One's integrated design will decrease deployment time, but this requires concessions on the depth of functionality supplied directly from SAP. In addition, the license model is convenient and cost-effective as long as the deployment, at some point, goes beyond a series of functional silos.