Mint Jutras

Making Enterprise Business Systems Pay Dividends

April 2017

SAP BUSINESS ONE: THE NEXT 20 YEARS

BECOMING AN ERP PLATFORM

SAP Business One by the Numbers

- ✓ *55,000+ customers with over a million users*
- ✓ *6,391 customers added last year*
- ✓ *22% revenue growth year over year*
- ✓ *95% renewal rate*
- ✓ *400+ industry solutions built*
- ✓ *1,000+ partners*
- ✓ *localized for 43 countries*
- ✓ *20 years in service*

SAP Business One turned 20 last year. If it were a human, that would mean it was poised to enter the prime of its life. If it were a dog, it would be getting very long in the tooth, unable perhaps to learn new tricks. In software years, 20 is often thought of as mature, but equally as often viewed as ancient. Indeed some 20 year old enterprise resource planning (ERP) solutions are truly approaching "end of life." Often referred to as "legacy" solutions, these are the ones that are still based on outdated technology, have changed very little over the last decade or more, and are still based on their original, outdated technology and architectures. Fortunately for the more than 55,000 customers running their businesses with SAP Business One, this ERP solution for small to mid-size businesses (SMBs) has come a very long way since it was first introduced.

But SAP believes it still has a long life ahead and is aggressively planning for the next 20 years. But, just as today's solution bears very little resemblance to the original single-user system (running on a Mac), the SAP Business One of the future will look, feel and ***be*** *something different than it is today. SAP Business One is becoming more than just ERP. It is becoming a business process platform. That means it will be open, extensible, and poised to meet very specific needs across many different verticals… and fully capable of being delivered through the cloud as a service.*

WHY A PLATFORM?

Periodically pundits in the software industry try hard to kill off ERP, largely based on old perceptions. Let's face it: Nobody recalls the early days of ERP as "the good old days." Early ERP solutions were rigid and inflexible, hard to install and implement and even harder to use. Functionality was limited (and limiting) and implementations were not for the faint of heart. Horror stories of failed implementations costing millions of dollars were fairly common. For many, those perceptions live on.

Some solution providers jump on this bandwagon and try to reposition their solutions as something else without really changing what they actually do. Is SAP's move a similar tactic? We think not. We believe it is an indication that the leadership of the SAP SMB team has a firm grasp of the needs of these smaller enterprises and is committed to satisfying those needs.

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Definition of ERP

Mint Jutras defines ERP as an integrated suite of modules that provides the operational and transactional system of record for your business. However most ERP solutions today do much more. And yet most SMBs settle for something less, leaving them with little control and even less visibility into how best to grow most profitably.

Over the years, SMBs in general have been turned off by ERP, thinking of it as a huge, disruptive and expensive undertaking. SAP in particular has suffered from these perceptions as a result of its penetration into large, multi-national enterprises. Overlooking the fact that SAP sells a completely different solution to SMBs, many mistakenly believe all ERP implementations to be overwhelmingly complex and overkill for their smaller operations. They fall into the trap of thinking they can get by without it. Or they think they need "something else." In reality, based on the way Mint Jutras defines ERP (see sidebar), they not only need it, they need ERP **and more**. We believe this is the rationale behind SAP's platform approach.

Some of the problems with the early versions of ERP resulted from software vendors trying to be all things to all businesses. With few exceptions, most early solution providers cast a wide net. Unwilling to turn any potential business away without a try, they came to market with very broad solutions. By trying to please everyone, they never had a complete solution for anyone. The 80-20 rule prevailed. Nobody expected a solution to satisfy all their needs (an 80% fit was often the goal), resulting in invasive (and sometimes expensive) customizations that built barriers to further innovation.

SAP seems to agree with our conclusion: All businesses need some flavor of ERP. But a "one size fits all" solution is not the most effective approach, because of the fact they also need "more". But the "more" needed by a brewery is very different from the "more" needed by the company providing field services to the oil and gas industry, or the fitness club selling gym memberships. Even in food and beverage, the "more" needed by growers is very different than the "more" needed in the poultry industry.

And while brewers, growers, field service providers, fitness clubs and poultry providers all have similar needs in finance, accounting, booking and revenue and inventory management, they are not willing to spend a lot on these back office functions, preferring instead to invest in solutions that help them directly grow their businesses. These companies want to invest in a gym club solution, or a beer brewing solution, or a field service solution, not a generic ERP.

But wouldn't it be nice if you could satisfy all your needs, including those basic functions, with the specialized solutions that help you directly drive your business? You can if those specialized solutions are built on top of a strong foundation – an ERP platform. That is the plan for SAP Business One.

SAP will continue to invest (and invest heavily) in the ongoing development of the generic core ERP, including new features and functions, as well as the user experience. It will modernize the user interface, including access from mobile devices, and embed analytical capabilities. But perhaps equally, if not more importantly, it will invest in the underlying architecture and technologies that enable partners to more easily enhance and extend the solution for the

specific needs of different vertical, and in some cases even more specialized micro vertical industries.

Many of SAP's partners have been developing extensions to SAP Business One intended to deliver specialized functionality for specific verticals. For example:

- Produmex offers solutions for industry verticals including life sciences, consumer products, food & beverage, wholesale & distribution, including third party logistic providers (3PLS).
- Liberali offers SAP Business One with complementary solutions for agriculture management.
- VistaVu Solutions specializes in industrial field service companies, including those in the oil and gas industry.
- beas Manufacturing offers a bit more generalized solution, but specifically for manufacturing.
- MTC Integration Technology is very specialized, offering the MTC Chicken Integration Solution built on SAP Business One.

These are just a few of the hundreds of partners that have been creating add-on solutions that complement SAP Business One for years. Yet up until now they have also been very likely to customize the software for individual customers. The plan for the future will be to open up the platform, making it more extensible (i.e. easier to add new functionality) while preserving the integrity of the core. SAP will encourage loose coupling of these extensions through modern APIs (application programming interfaces) and discourage invasive customization.

This will be accomplished through microservices. For the reader with a technical background, microservices, also known as the microservice architecture, is defined (by Wikipedia) as an architectural style that structures an application as a collection of loosely coupled services. For those nontechnical readers, think of it as constructing a solution from a set of Lego building blocks.

Think about how you build a structure from Legos. Each Lego block is made of the same kind of material and is attached (connected) to the other Lego blocks the same way. In many ways they are interchangeable. But by choosing different colors and sizes, and connecting them with a different design, you can make a structure that is very unique. And once constructed, if you want to change it, decoupling some of the blocks and replacing them doesn't destroy the parts that are not affected. There is far less disruption introduced than if you had constructed it with a hammer and nails.

SAP will introduce microservices by refactoring the underlying code. Again, for the nontechnical reader, think of it as restructuring the code without changing the behavior or the functionality. You might be wondering, why bother to change the code if you aren't changing what it does? There may be any

number of reasons, including making it easier to work with, reducing complexity and improving "readability." But Mint Jutras feels the most valuable by-product of refactoring is to make it more "extensible." In the context of SAP Business One: to make it easier for partners to add these specialized solutions to a solid core that will be used universally.

SAP will be replacing portions that were previously built from timbers with hammer and nails, replacing them with Lego blocks. SAP won't do this all in one fell swoop, but rather piece by piece. This is a less disruptive approach and allows partners to start taking advantage of those microservices as they become available. It also makes SAP Business One increasingly agile.

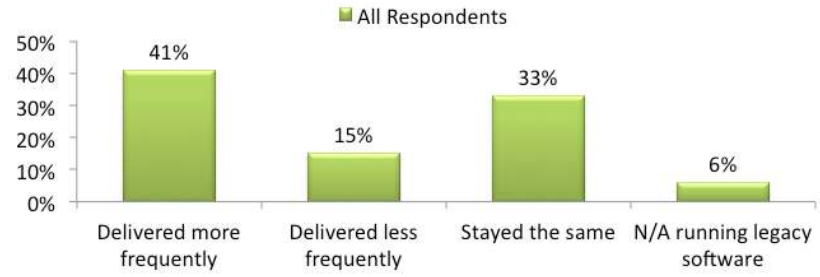
THE VALUE OF AGILITY

The 2016 Mint Jutras Enterprise Solution Study found 88% of companies believe they face some level of risk in their businesses and/or industries being disrupted by new innovative products, new ways of selling or pricing existing products or services, entirely new business models, or some combination of all of the above. And then of course there are still the more traditional disruptive factors like expansion and growth, organizational restructuring and regulatory changes, just to name a few.

All this disruption can have a cascading impact on business application requirements, making agility - the ability to easily innovate, evolve and change - even more important than current functionality.

As a result of this potential for disruption, we made innovation a centerpiece for our 2017 Enterprise Solution Study. The days of slow and limited innovation are long gone. Our survey participants this year confirm many solution providers have increased the pace and volume of upgrades (Figure 1).

Figure 1: How has the pace of innovation delivered changed?



Source: Mint Jutras 2017 Enterprise Solution Study

This obviously puts more pressure on SAP to remain competitive. While other solution providers would start resting on their laurels given the huge installed base enjoyed by SAP Business One, SAP is anything but complacent.

Deployment Models

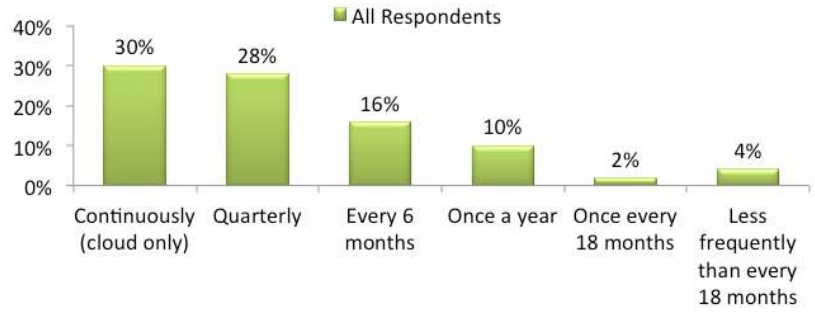
Breakdown of deployment models across our survey respondents:

- *49% Software as a Service (SaaS)*
- *22% Licensed but hosted by your ERP vendor*
- *4% Licensed but hosted by an independent 3rd party*
- *17% Traditional licensed on-premise*
- *17% Hybrid: Parts are licensed and maintained on-premise and parts are SaaS*

Note this is an unusually high percentage of SaaS deployments and should not be interpreted as an overall SaaS adoption rate.

How much pressure? We also asked respondents, on average, how frequently new releases (not just bug fixes) are delivered today (Figure 2).

Figure 2: How frequently are new releases delivered?



Source: Mint Jutras 2017 Enterprise Solution Study

If we average the responses, we find solution providers offer a new release every 5.2 months. This frequency is higher than expected. We suspect this is largely due to the high percentage of companies surveyed that have deployed ERP as cloud-based Software as a Service (SaaS). The breakdown is noted in the sidebar to the left of Figure 2. Continuous innovation is really only feasible with SaaS solutions. This is one of many of the potential benefits of SaaS, and one of the many reasons why fewer and fewer potential buyers of ERP will no longer even consider a solution that is only available through traditional on-premise licenses.

We've been asking the same question in our annual Enterprise Solution Studies for years now: If you were to select a new solution today, which deployment options would you consider? Participants are allowed to select as many as they desired.

Figure 3: Which deployment options would you consider today?

Source: Mint Jutras Enterprise Solution Studies
* Hybrid option added in 2015

It is clear from Figure 2 that the willingness to consider SaaS has steadily risen to become the most popular option. This year we added a follow on question,

Cloud versus SaaS

Cloud *refers to access to computing, software, storage of data over a network (generally the Internet.) You may purchase a license for the software and install it on your own computers or those owned and managed by another company, but your access is through the Internet and therefore through the "cloud," whether private or public.*

SaaS *is exactly what is implied by what the acronym stands for: Software as a Service. Software is delivered only as a* ***service****. It is not delivered on a CD or other media to be loaded on your own (or another's) computer. It is accessed over the Internet and is generally paid for on a subscription basis.*

Using these definitions, we can confidently say ***all SaaS is cloud computing, but not all cloud computing is SaaS.***

listing all the deployment options selected and asking which is the top choice. Over half (51%) of all survey respondents selected SaaS and 70% of those that would consider SaaS, indicated it is their first choice.

THE CLOUD/SAAS IMPACT

Continuous update (the option shown in the far left hand column of Figure 2) was only presented as an option to those running ERP deployed as SaaS or a hybrid of SaaS and licensed, on-premise ERP. This highlights an often under-valued benefit of a SaaS solution – more innovation and more frequent updates. We believe one of the reasons this benefit is often overlooked is because many equate all "cloud" solutions to SaaS. While the terms are often used interchangeably, they are not the same. To be clear:

> **Cloud** refers to access to computing, software, storage of data over a network (generally the Internet.) You may purchase a license for the software and install it on your own computers or those owned and managed by another company, but your access is through the Internet and therefore through the "cloud," whether private or public.
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While often overlooked, that value of more innovation becomes very real once you make the move to SaaS, as evidenced by how frequently innovation is actually consumed. We find those running SaaS solutions upgrade far more frequently (Figure 4), largely because the vendor, not the customer, does most of the heavy lifting when it comes time to upgrade.

Figure 4: How frequently do you consume upgrades?

Source: Mint Jutras 2017 Enterprise Solution Study

Multi-tenant versus Single-tenant SaaS

***Multi-tenant SaaS**: Multiple companies use the same instance of hosted software; configuration settings, company and role-based access personalize business processes and protect data security.*

***Single-tenant (or Multi-instance) SaaS:** Each company is given its own instance of the software, but may share common services, such as an integration platform, and security.*

Those running SaaS solutions are relieved of the technical burden of the upgrade. But even when innovation is delivered continuously, it takes effort on the part of the consumer of ERP to take full advantage of it. Some do that continuously, but others fall back into the old way of doing things and only review new functionality periodically. We suspect the small percentage in a SaaS environment that are not upgrading frequently may be running in private clouds with a single-tenant solution (see sidebar). They enjoy some, but not all of the benefits of those running a multi-tenant SaaS solution where the vendors' efforts are invested in maintaining and developing a single line of code. While many of its customers might not appreciate the significance, SAP does, and in refactoring the SAP Business One code, is working steadily towards making it fully multi-tenant.

Those operating in a hybrid environment are presumably migrating in the direction of more software in the cloud and therefore more frequent updates. As SAP refactors the code piece by piece, many of its SAP Business One customers will fall into this category.

In addition, many of SAP's partners developing extensions to SAP Business One are not only putting those components in the cloud, but delivering them as SaaS. Enterpryze is one such SAP partner that is assisting SAP Business One customers in making the transition to the cloud and SaaS. With a tag line of "Simple Online Mobile Access for SAP Business One," Enterpryze provides both a "web app" that connects from a browser directly to SAP Business One, using modules like Sales, Service, Delivery, Expenses, Finance, customer relationship

Enterpryze "Apps"

Customers pay $9.95 per user per month for access to SAP Business One through a series of web or mobile apps. The price per user includes any and all "apps" needed for an indivdual user. Apps available today are:

- ✓ *Service*
- ✓ *Expense*
- ✓ *Sell*
- ✓ *Deliver*
- ✓ *Purchase*
- ✓ *Finance*
- ✓ *Timesheet*
- ✓ *Credit Control*
- ✓ *Pipeline*
- ✓ *Dashboard/ Reporting*

Customers also pay to be users of SAP Business One, but at the reduced rate of a casual user.

management (CRM) and Procurement. Alternatively, Enterpryze customers can download the same functions as "mobile apps" running on Apple iOS and Android devices.

By using the Enterpryze Apps on top of SAP Business One, even those with on-premise licenses start to realize the always on, access anytime, from anywhere benefits of a SaaS solution. And the price ($9.95 per user per month gives users access to any functions they might require) makes it affordable for all employees. While the typical small business might like the idea of providing access to 100% of its employees, a full user license for each may put the price of SAP Business One out of their reach. So they typically will restrict access to those who need it the most, thereby also limiting the value. Enterpryze Apps solve that problem by connecting users directly to data in SAP Business One at a reduced cost.

ONE MORE THING… CUSTOMIZATION

As mentioned earlier, SAP Business One customers often turned to partners to fill gaps in the software with customization. These customizations tended to create barriers to upgrades, which further slowed innovation. Yet not all "customizations" added new features. They might have added query and reporting capabilities, made cosmetic changes or tweaked workflows.

In the past any type of customization was invasive, even those making simplistic changes like those noted above. It meant mucking around in source code. Not only was this a costly, lengthy and time-consuming process, it also created barriers to upgrades. Today there should be far less need to ever touch the underlying source code.

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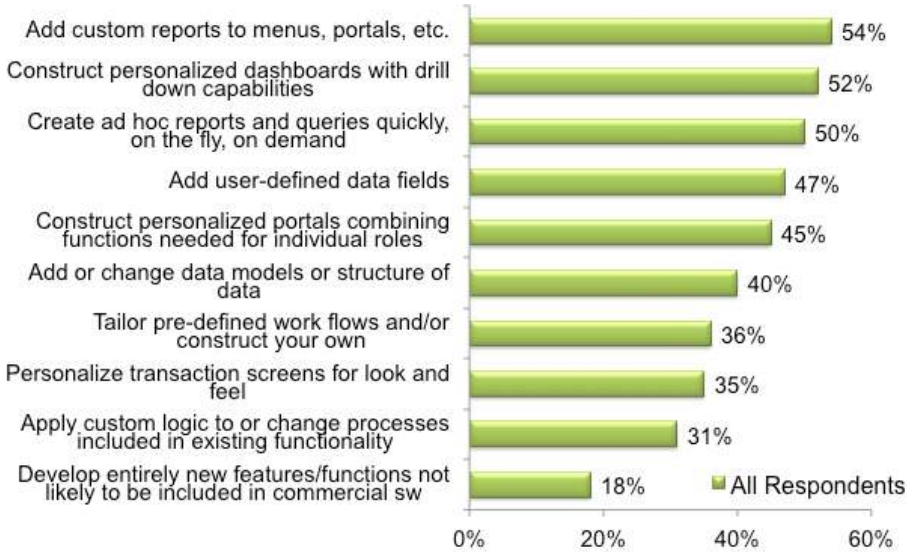
The newest generation of modern-day ERP solutions have become much more configurable, allowing you to personalize and tailor the solution to your individual needs without costly and invasive customization. We asked our 2017 Enterprise Solution Study participants to check off all the different types of "customization" they **believe they need** (Figure 4). Keep in mind that most any change to the software or the user experience is typically referred to as "customization."

There are ten different types of "customization" listed in Figure 5. They are sorted by the likelihood of them being required. SAP Business One partners should today be able to deliver the first eight of these without requiring any invasive code changes and without building barriers to consuming innovation. And as SAP continues to refactor the underlying code, the more likely even those last two requirements, which spell the need for custom logic and features that differentiate businesses, can be built with the software equivalent of Legos.

Figure 5: What type of customization do you believe you need?



Source: Mint Jutras 2017 Enterprise Solution Study

"Customization"

Many modern, technology-enabled ERP solutions today deliver a high level of personalization and configuration without customization as defined in the classic sense of invasive code changes.

KEY TAKEAWAYS

SAP Business One is a mature solution. But unlike many of its competitors of similar vintage, it has continued to evolve over the years. The depth and breadth of functionality and the underlying technical architecture is a far cry from its humble beginnings. It has truly come a very long way in the past 20 years. And yet SAP is aggressively planning for the next 20 years.

Of course nobody today can accurately predict what the world will be like in 2036, which means you (and the solution that runs your business) better be ready for anything. We live in disruptive times, making agility most important. Agility provides you with the ability to innovate, evolve and change in order to take full advantage of all the new and unprecedented opportunities that lie in the future.

But SAP doesn't plan on being everything to everybody. It's not going it alone. Yes it will continue to invest in the core functions of ERP, along with the underlying architecture and the over-arching user experiences. All companies beyond the incubation stage require a good solid ERP. Customers don't need something different than ERP. They need ERP and "more". The type of business determines what "more" they need.

SAP is relying heavily on its partners to help takes its customers that final mile beyond core ERP and is now upping the ante in helping those partners deliver. SAP Business One is well on its way to becoming an ERP platform.

About the author: *Cindy Jutras is a widely recognized expert in analyzing the impact of enterprise applications on business performance. Utilizing over 40 years of corporate experience and specific expertise in manufacturing, supply chain, customer service and business performance management, Cindy has spent the past 11 years benchmarking the performance of software solutions in the context of the business benefits of technology. In 2011 Cindy founded Mint Jutras LLC (www.mintjutras.com), specializing in analyzing and communicating the business value enterprise applications bring to the enterprise.*