

Another Fresh Look at SAP's SaaS Solution: Paving the Way for Growth

As the economy recovers, small and medium-size enterprises (SMEs) are looking for ways to gain advantages over their competitors while dealing with the pressures that hinder their businesses as they attempt to grow. While some have the belief that Enterprise Resource Planning (ERP) is only for large businesses, the truth is that businesses of any size can benefit greatly from the infrastructure, streamlined and accelerated processes, and visibility that ERP can provide. Those SMEs that choose to implement ERP are receiving quantifiable business benefits that include large reductions in costs leading towards increased profits. As a rule, SMEs attempt to keep costs low, making price a determining factor when choosing software solutions. As a result of this and the tight credit market, Aberdeen is seeing an increased number of companies considering Software as a Service (SaaS) as a delivery method for their ERP solutions. After an incubation period of three years, SAP has determined now is the time to strive for a leadership position in on-demand solutions with SAP Business ByDesign as the application platform of choice.

SAP Business ByDesign

Officially announced on September 17, 2007, Business ByDesign is SAP's on-demand solution targeting businesses with 100 to 500 employees. In addition to those smaller corporations in that size range, SAP also targets divisions and subsidiaries of large corporations. While ERP packages with a broader footprint may be implemented at the corporate level, the complexity of these solutions may make them less desirable for small business units. Many industry observers will refer to these business entities and the solutions they install as "Tier 2", but this should not be confused with a lesser tier (i.e. smaller) ERP vendor.

SAP itself does not refer to Business ByDesign as an ERP solution, but instead as a "Business Solution", but it does fulfill Aberdeen's definition of ERP as an integrated suite of modules that forms the transactional system of record upon which a business is run. As a business solution it also extends beyond the traditional ERP modules, including embedded functionality that might ordinarily be delivered through a separate application (e.g. Customer Relationship Management and project management).

In targeting SMEs, SAP set out to reduce both the price and the complexity of the offering in comparison to SAP ERP, a component of the SAP Business Suite, which is often that "corporate" solution. For this reason, and also in order to natively take advantage of new technology infrastructures, it is not a derivative of SAP ERP (or any of SAP's enterprise applications), but a "built

Analyst Insight

Aberdeen's Insights provide the analyst perspective of the research as drawn from an aggregated view of the research surveys, interviews, and data analysis

SaaS ERP Series

This Analyst Insight is in a series of Aberdeen research reports exploring the topic of SaaS ERP, starting with [SaaS ERP: Trends & Observations 2010](#). While several ERP solution providers are currently equipped to deliver ERP using SaaS deployment models, how these different SaaS solutions are delivered varies quite significantly. This report focuses primarily on SAP's SaaS ERP offering, SAP Business ByDesign.

Company Size Definition

This Analyst Insight examines the performance and capabilities of companies with annual revenues under \$500 million, referred to as Small to Medium-size Enterprises (SMEs).

from scratch" new product. As a result, we cannot refer to Business ByDesign as a "mature" product and we don't expect it to have every feature or function provided by SAP's high end, mature solution (SAP ERP).

While most vendors start with building the core fundamentals before expanding to offer extensions such as Customer Relationship Management and project management, SAP took a more outside-in approach, first developing some of the functionality usually found in extensions, and later on filling in the basics. Therefore, although ByDesign may not have the same extent of features as a more mature product like SAP ERP, it goes beyond the basic core modules of traditional ERP.

This sequence of development was driven largely by early customer demand. The first 100 customers were accepted into a charter program which gave them more direct access to SAP's developers. Many of these were service providers and project-based businesses, thereby inherently strengthening the features and functions supporting those types of companies. Today SAP positions the solution as a fit for general business needs with specific capabilities for services and professional services firms, projects based businesses and discrete manufacturers.

By building Business ByDesign from scratch without being constrained by existing code, SAP has been able to simplify the software and take full advantage of new technology. As such, Business ByDesign is a fully integrated solution and also provides SAP with an application platform for extending SAP ERP with on-demand "edge" products. This is in fact the approach SAP is following to further develop its overall cloud strategy.

Deconstructing the Myth That SMEs Do Not Need ERP

Since respondents to Aberdeen's annual ERP study are self-selecting based upon their interest in ERP, it is not necessarily the best way to determine overall ERP implementation rates. Instead, Aberdeen looks to its Aberdeen Business review for adoption rates of all types of enterprise applications. Coming into 2010 the Aberdeen Business Review found that only 29% of SMEs had implemented ERP in comparison to 41% of the overall sample of over 1250 respondents. Aberdeen's report, [*ERP in SME: Fueling Growth and Profits*](#) (August 2010), delved into the reasons that SMEs are citing for not investing in ERP.

Of the 96 respondents without ERP, 39% feel they are too small to embark on an ERP implementation (Figure 1). However, Aberdeen finds companies of all sizes can benefit from ERP as a source of cost savings and operational improvements and over the years affordable options for small business have increased with Business ByDesign being one of these options. While 34% believe they have been able to function effectively without it in the past, only 21% feel they will be able to continue to do so into the foreseeable future. Even for companies that feel as if they can continue operating without ERP, Aberdeen would argue that they would be able to improve efficiency and productivity by investing.

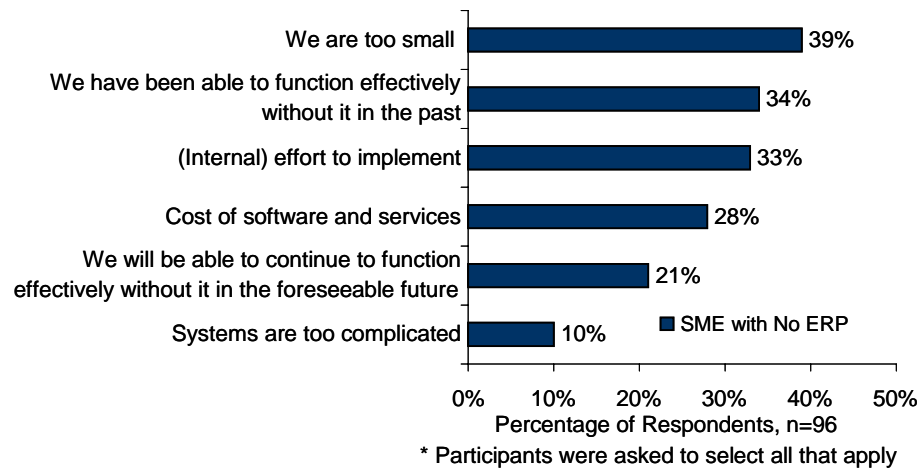
SAP's On-demand Solution Portfolio

SAP's supports three On-demand portfolios. Each targets a specific audience with some overlap between the three.

- √ **Line of Business On-demand** targets the large enterprise that may or may not be running SAP Business Suite 7. The offerings here are narrow in functional scope (e.g. CRM, eSourcing, Carbon Impact, etc.) and generally extend ERP applications
- √ **SAP Business ByDesign** targets the small to medium size business (SME) and is available exclusively in an On-demand delivery model.
- √ **Business Objects (BI On-demand)** is a business intelligence (BI) infrastructure which both supplements the other two on-demand portfolios and is available as a stand-alone solution to complement non-SAP enterprise applications.

Thirty-three percent (33%) of those without ERP have yet to invest because of the internal effort required to implement. While implementation of a system that will essentially run your business can seem daunting, there are vendors and solutions that can simplify the process and this is exactly the sentiment SAP is setting out to counter in bring ByDesign to market.

Figure 1: Why No ERP?



Source: Aberdeen Group, August 2010

Unconstrained by legacy architectures and unencumbered with the complexity that is inherent in an application that has matured over decades, implementation of Business ByDesign is more streamlined. Aberdeen has spoken with several customers that have experienced much accelerated implementations, often driven by need: a divestiture or the desire to coordinate the "go live" event with a year-end close. The CRM only startup has been implemented in as little as two weeks.

SAP has built templates featuring defined best practices and the go-live assistance model requires limited hand holding by SAP. Remote consultants assist with implementation. These business experts (rather than technology experts), coach SMEs on how to get the most out of their Business ByDesign implementation. For employees to learn how to use the system, there are self-guided tours and contextual help is on every screen.

This approach serves two purposes. Extra training time is not loaded on employees, taking them away from their everyday jobs and SAP is able to handle a high volume of transactions.

Twenty-eight percent of SMEs (without ERP) cite the cost of software and services as prohibitory. ERP can be a substantial investment, yet SaaS options are making these costs more manageable. For example, the published price of Business ByDesign is \$149 per user per month. While originally SAP required a minimum purchase of 25 users, it is now offering starter packages where businesses can purchase as few as ten users at a fairly low price point. Other starter packages for CRM only are listed at \$89

SaaS versus Hosted

SaaS or on-demand: The software itself is not licensed or owned by the end user, it is provided as a service.

Hosted: Licensed applications are hosted by an outside third-party. This may be in a separate instance on a separate piece of hardware, or in a separate virtual instance (dedicated to your company) where the application is housed on hardware shared by multiple companies.

Preconfigured on a hardware appliance: Licensed software is pre-configured and pre-installed on the hardware. Pre-configuration may be industry-specific and include best practices templates for workflows and role definitions.

Traditional license on premise: Software is not bought and sold; instead it is licensed for use. It may be licensed to be used on a particular computer or by other criteria such as number of users.

"When we were spun off in December 2007, we were using a legacy ERP from our original company. We were facing an increasing monthly rental fee to continue to use it. We set a 'drop dead' date to get off by May 1, 2008. We actually went live May 12th, just 14 weeks after the first exploratory phone call."

~ President, Manufacturer of Ceramic powders, SAP Business ByDesign charter customer

per user per month. There is also an option to add "efficiency users" at a group fee of \$54 per month for five users. These efficiency users have access limited to self-service type applications for such activities as recording time and expenses or for approvals and confirmations.

These prices make ERP affordable even for companies with limited funds. Furthermore, the company benefits from the SaaS model by being able to account for their ERP as an operating expense rather than a capital expenditure. For many small businesses hurt by a tight credit market, this could make a significant difference, enabling them to begin their ERP journey now while the business itself is fairly well constrained. This helps them to develop best practices with the assurance that their systems will support, rather than hinder growth.

Ten percent (10%) feel that systems are too complicated. SAP has kept this in mind with Business ByDesign. The solution offers less complexity so that businesses can find it easy to understand, adapt to, and consume. In spite of these perceived advantages, Aberdeen has observed a general reluctance to deploying ERP in a SaaS model over the past several years. However, in 2010 we are finally seeing the resistance to SaaS ERP starting to lessen.

Increased Consideration of SaaS

The SaaS delivery model is aligned with the objectives and actions of SMEs. Despite this, businesses have been slow in accepting SaaS as a delivery model for ERP. Whether this is because of a reluctance to relinquish control or security and "up time" availability concerns, some are simply not receptive to something new and different. However, Aberdeen's [SaaS ERP Trends and Observations 2010](#) (October 2010) report ed an increased willingness to consider SaaS as a deployment option for ERP. Between 2009 and 2010, Aberdeen saw a jump from 23% to 39% in the willingness to consider SaaS. This was to the detriment of the traditional licensed on premise model which decreased from 80% to 60%. There are several reasons for this, which are reflected in the design of Business ByDesign.

The most often cited reason for businesses to consider SaaS is the lower total cost of ownership (Figure 2). To cite an example of how much businesses can save by choosing a SaaS solution such as Business ByDesign, we look to Aberdeen's [Beyond the Total Cost of ERP Ownership](#) (June 2009). The study found that the average software price per user in companies with annual revenues under \$50 million to be around \$6,394, with an average of 39 users. This means that a company that has 25 users would be paying \$159,850 for its software, perhaps more if a volume discount may be applied for a higher number of users. In addition, these companies pay an average of 15.7% of the software cost for maintenance, which is low compared to the current list price of maintenance for new systems today. This added to the cost of the software equals out to \$235,139 for three years. In comparison, say a business requires 25 named users along with 25 efficiency users, Business ByDesign would cost \$143,820 over those same three years. This is 39% less than the average cost of a traditional solution

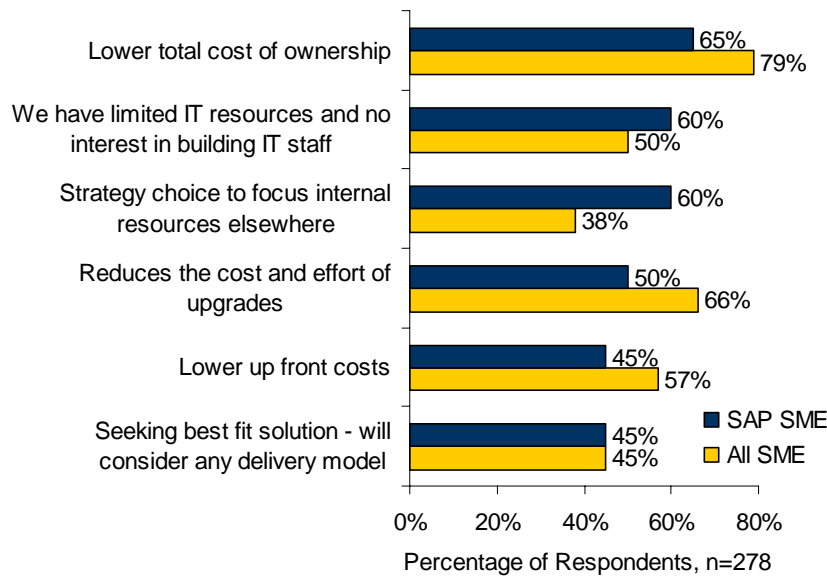
Concerns About SaaS ERP:

ERP 2010 Survey Respondents were asked if they would be willing to consider SaaS deployment. Those that were unwilling to consider SaaS were asked what concerns them about SaaS. The aspects respondents found most concerning:

- √ 56% We want to control our own upgrade process
- √ 50% Security concerns
- √ 47% ERP is too basic and strategic to our business
- √ 38% Downtime risk - concern over predictable performance
- √ 35% We believe on-premise solutions offer greater functionality
- √ 29% We require heavy customization

over a three year time period. Business ByDesign combines the low cost of SaaS with the backing of a large, well-established leader in the industry, with no initial investment and the avoidance of the costs of building an IT infrastructure.

Figure 2: Cost Considerations Provide the Most Appeal



Source: Aberdeen Group, June 2010

Note that Figure 2 also compares the sentiments of 55 SAP SME customers against all SMEs. While SMEs that are currently SAP customers are somewhat less likely to find lower TCO the most appealing benefit of a SaaS deployment, they are 20% more likely to note that they have limited IT resources and are not interested in building out IT staffs. This is an important factor in choosing not only SAP Business ByDesign, but any SaaS ERP deployment.

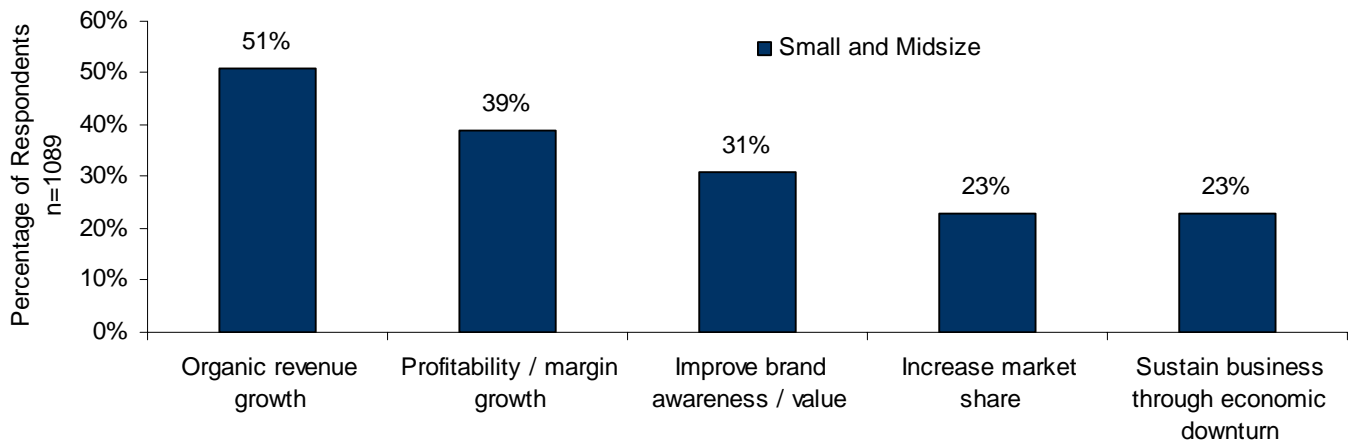
Yet of particular note is the increased focus on making a strategic decision in how and where to focus internal resources. Sixty percent (60%) of SAP SME customers view the SaaS decision as a strategy choice, 58% more so than the average SME. This is often a sound strategy for small and growing businesses - to focus their resources more on areas that will directly impact the business itself, rather than on the underlying infrastructure needed to support growth. Indeed many small companies do this to the ultimate detriment of the business, ignoring those administrative and technological investments that will help them continue to grow their businesses over time.

In the Q3 2010 Aberdeen Business Review, SMEs ranked their top goals as organic revenue growth and profitability/margin growth (Figure 3). These companies are also attempting to reduce costs and increase market share.

“Our operations and finance were outgrowing our prior accounting solution. We thought, 'Let's go with something we can grow with.' Everything else we do is in the cloud – email, office suites. We had no interest in investing in IT infrastructure and putting it in place for ERP didn't make any sense. We thought, if SAP has a solution let's go with. While ByDesign is still a new product and it will take time for more features, the benefits of not having to invest in IT and the backing of a company like SAP more than outweighed the 'newness' of the product.”

~ Director of Finance,
Beverage Importer and
Business ByDesign customer

Figure 3: Goals of SMEs



Source: Aberdeen Group, August 2010

A SaaS decision can ultimately serve both goals in parallel, allowing the small company to invest capital in the direct growth of the business, without sacrificing the underlying foundation that will support them well into future growth stages. Scalability is an important consideration in any ERP decision. While Business ByDesign may not be as mature as SAP other offerings, Aberdeen would expect SAP to continue to invest in this solution, particularly since it is also using the ByDesign platform to build out more on-demand capabilities of its Business Suite. This creates more demand for added functionality. Already it has the advantage of built-in analytics capabilities that come from the Business Objects side of the SAP house and Aberdeen has spotted a trend by SAP to further embed business intelligence directly in these applications, which will continue to build strength.

While SAP customers are 24% less likely to be drawn to SaaS deployments by the reduced cost and effort of upgrades, SAP itself should be more interested in the overall sentiment of SMEs in this regard since it is the community of non-SAP users that presents them with the most opportunity for growth in the SME market. Indeed, two thirds of all SMEs find this an appealing benefit of a SaaS deployment. The Business ByDesign community has the added benefit of the sheer size and presence of SAP. While distribution today is limited to six countries, (United States, United Kingdom, Germany, France, China, India) these represent a large percentage of the world, and SAP will continue over time to roll out support for additional regions. Today businesses have access to incident handling, a community built around Business ByDesign, automated help checks, and 24x7 event support. This is all included in the service, along with upgrades.

Addressing Concerns

Conversely, a concern of those that are unwilling to consider SaaS is that the business requires heavy customization. Twenty-nine percent (29%) indicated this concern. Aberdeen has been observing a growing trend away

"We were looking for the added levels of control that are normal at a larger company but not the norm for a small company. This represented a cultural shift for us.

"Why Business ByDesign? It was an integrated single system to manage operations and provide analytics. We wanted an enterprise class platform and long term reliability (financial strength and a product roadmap into the future)."

~ Sina Moatamed, CTO,
BendPak, Inc.

from what has traditionally been viewed as customization moving more in the direction of "configurability" or tailor-ability". Aberdeen's annual ERP 2010 survey found the average SME was able to perform 57% of the necessary tailoring without programming resulting in an average implementation being about 16% "customized". While originally no customization (i.e. modifications requiring programming or changes to the data base or source code) were allowed or supported by SAP. However, the options available for tailoring the solution often left customers feeling (in a positive way) like they had customized the solution.

Since those early days of Business ByDesign, SAP has created a Software Development Kit (SDK) that allows customers and/or partners to add functionality of their own. Between the options available for tailoring and the SDK, prospects for Business ByDesign should feel as if their concerns can be addressed. But if that comfort level is not there, these concerns should be brought up (and addressed) during the sales cycle.

As noted in [SaaS ERP Trends and Observations 2010](#) (October 2010), one factor influencing the solution provider's willingness and ability to deliver customization will depend on whether the solution is multi-tenant or multi-instance (see sidebar definition). This is of particular interest in discussing Business ByDesign because until the recent release of Feature Pack (FP) 2.5, the product was not multi-tenant. However, it is the vendor that benefits most directly from being able to offer a multi-tenant solution because this allows them to scale delivery with less cost of sale and service. Obviously delivering bug fixes and product innovation to a single instance of software supporting many different customers places far less burden on the vendor.

Of more importance to customers and potential customers, FP 2.5 positions SAP for profitable volume business, with what they anticipate to be a lower TCO by a factor of 20 for SAP itself. This affirms continued innovation in order to scale the product along with the business.

Scale: The Cloud and Mobility Go Hand in Hand

Scalability becomes a key concern in growing a business. In order to provide scale, SAP has been evangelizing three basic tenets of their business:

- the cloud: obviously of particular interest in the context of Business ByDesign
- mobility: which comes into play as companies extend access to ERP data to increasingly mobile executives
- in-memory computing: of less interest to SMEs, but can have tremendous impact of performance of applications, particularly the embedded analytics which are becoming increasingly part of all of SAP's offerings

Blending cloud and mobility, SAP currently has iPhone and iPad apps for Business ByDesign and will be adding mobile functionality for Blackberrys soon.

Flavors of 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.

Multi-instance SaaS: Each company is given its own instance of the (hosted) software, but may share common services, such as an integration platform, security and permissibility models, or optimization engines.

Business Benefits Achieved from ERP

SMEs that have not yet invested in ERP should consider the benefits that other companies are gaining through their implementations. These benefits are shown in Table I. Even Laggards are seeing quantifiable business benefits from their ERP implementations. This proves that ERP is not just for large companies and even small businesses can greatly improve their operations with a successful ERP implementation. There is a common misperception that SAP is too powerful and complex for all businesses, but with Business ByDesign SMEs can take stock in a solution that is not complex but still essential to running the business.

Table I: Business Benefits Achieved from ERP

Definition of Maturity Class	Improvement Gained through the Implementation of ERP
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 22% reduction in operating costs ▪ 20% reduction in administrative costs ▪ <i>17% reduction in inventory*</i> ▪ <i>17% improvement in internal schedule compliance*</i> ▪ 19% improvement in complete and on-time delivery
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 13% reduction in operating costs ▪ 10% reduction in administrative costs ▪ <i>12% reduction in inventory*</i> ▪ <i>13% improvement in internal schedule compliance*</i> ▪ 14% improvement in complete and on-time delivery
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 7% reduction in operating costs ▪ 4% reduction in administrative costs ▪ <i>9% reduction in inventory*</i> ▪ <i>11% improvement in internal schedule compliance*</i> ▪ 6% improvement in complete and on-time delivery

*Improvements shown in italics were measured only for manufacturers and distributors
Source: Aberdeen Group, August 2010

Best-in-Class

Best-in-Class Small and Medium Enterprises (SMEs) were determined as those businesses with annual revenues under \$500 million and by their performance in the following criteria:

- √ Days to close a month
- √ Days sales outstanding
- √ Percentage of complete and on-time delivery
- √ Growth in operating margins over the past two years

Key Takeaways

SAP's Business ByDesign is designed to be a solution to meet the general business needs with specific capabilities for services and professional services firms, projects based businesses and discrete manufacturers. With the introduction of new features and multi-tenancy in FP 2.5 it is a credible SaaS ERP offering with the backing of a multi-national, multi-billion dollar leader in the ERP industry.

SAP Business ByDesign has been:

- Developed from scratch it takes full advantage of new technology, including Service Oriented Architecture, embedded analytics and mobility offered in the cloud

- Designed for the SME, it removes much of the complexity associated with SAP implementations
- Delivered exclusively via SaaS with an on-demand cloud model, it eliminates some of the cost barriers and allows those smaller companies to treat ERP implementation as an operating expense, and take advantage of capabilities often only associated with mature solutions

For small to mid-size companies that have yet to invest in ERP, or those that

- have outgrown their current solution
- are unwilling or cannot afford the investment in internal IT resources or the care and feeding of an on-premise ERP solution
- or simply want to consider all deployment options...

SAP Business ByDesign is definitely worth adding to its short list of vendors for consideration.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

[SaaS Trends and Observations 2010](#);
October 2010

[ERP in SME: Fueling Growth and Profits](#);
August 2010

[SaaS ERP Trends and Observations](#);
December 2009

[The Total Cost of ERP Ownership in Mid-Size Companies](#); August 2007

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