

Introduction

“SAP is Geared to Large Organizations and Does not Work for Small or Mid-sized Enterprises”

“It Takes an Eternity to Implement SAP”

“SAP Consulting is Too Expensive for Small & Mid-Sized Enterprises”

“SAP is Too Complex”

“There is no ROI to an SAP Implementation”

Yes, You Can

Re-Examining the Myths about SAP in the Small-&Medium-sized Markets

Michael Doane, 2007

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Yes, You Can

Re-Examining the Myths about SAP in the Small & Medium-sized Markets

Introduction

One of the greatest impediments to small-and-mid-sized businesses (firms with less than \$1B in annual revenues) is that, over the years, a number of myths about SAP have circulated their market space. Further, it seems that these myths are more damaging the lower down the revenue spectrum one goes.

These myths include:

1. SAP is geared to large organizations and does not work for small or mid-sized enterprises.
2. It takes an eternity to implement SAP
3. SAP consulting is too expensive for small & mid-sized enterprises.
4. SAP is too complex.
5. There is no ROI to an SAP implementation.

These myths sprung up mostly in North America and are based on a combination of some highly-publicized SAP failures in the 1993 to 1999 time frame and anxious IT people in small-and-mid-sized enterprises who are not keen on giving up their legacy systems.

In short, business leaders in these markets in search of greater business flexibility through responsive IT are given the myth-supported message of “You can’t have SAP.”

Winston Churchill wrote “A lie gets halfway around the world before the truth has a chance to get its pants on.” In order to enlighten these business leaders, let’s go one pant leg at a time...

“SAP is Geared to Large Organizations and Does not Work for Small or Mid-sized Enterprises”

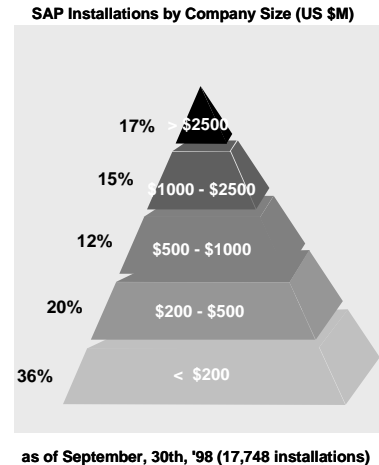
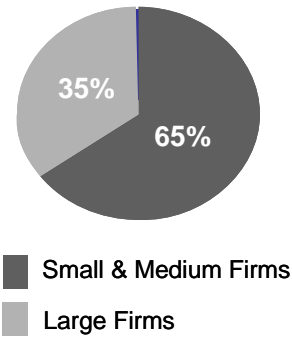
The greatest myth is that SAP is geared only to large-scale organizations. As of this writing, more than 26,000 SAP clients have annual revenues of less than \$1 billion. They represent 65% of the SAP installed base.

This particular myth exists only in the United States where the market for SAP R/3 was so overheated from 1993 to 1999. In this period, SAP sales were concentrated upon the Fortune 500 and there were a number of struggling projects that made national press.

Further, to determine whether or not the SME market has only recently comprised 65% of SAP business, I consulted my archives and found the following graphic (on the right below) in a PowerPoint of my 1998 version of an SAP Executive Seminar.

Note the addition of the bottom three rungs. 68% in 1998. It has ever been thus.

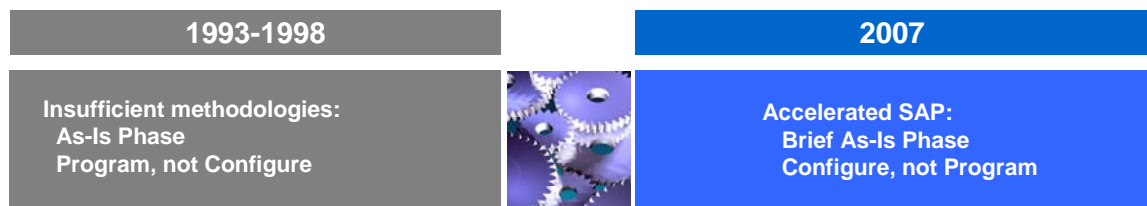
SAP Clients 2007



“It Takes an Eternity to Implement SAP” and “SAP Consulting is too Expensive for Small & Mid-Sized Enterprises”

While the myth that SAP is only for large organizations was entirely unfounded, the current myth about the time and cost of implementing SAP is grounded somewhat in experiences from the earlier, and far less mature, world of SAP.

With the announcement of R/3 in late 1992, SAP burst into prominence in North America and for the next seven years, partly fueled by the Y2K problem, software licensing grew from \$200M to nearly \$2B. While this was very good news for SAP America and its alliance partners, there were a number of “immature market” elements that led to lengthy and costly implementations, most especially for very large organizations. All of these elements have been roundly addressed in the ensuing eight years.

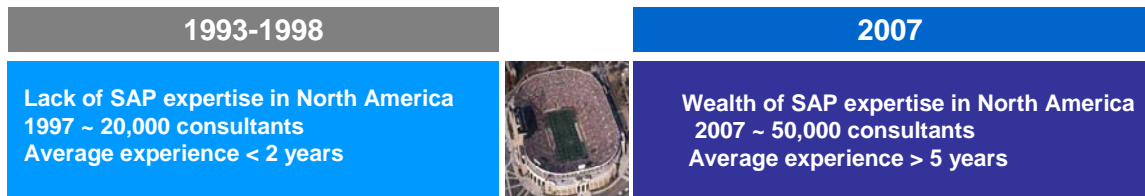


Prior to 1997, SAP systems integrators were deploying implementation methodologies that were initially developed for large-scale design-build-run projects in which the “build” phase centered on application programming. These methodologies were largely unsuited to SAP where the “build” phases was intended to be configuration but, by dint of poor methodology, was too often an ABAP-customization phase, thus negating one of the key advantages of SAP over traditional applications.

These methodologies also had a great reliance on the As-Is (or Current State) phase in which a client’s current business processes were assiduously charted and scripted, often down to even the lowest process levels. Many clients therefore had myriad binders filling myriad shelves with charts and scripts referring to As-Was once the next phase, To Be, was launched. Because the As-Is phase was too often adhered to in such an uncompromising fashion, it took on the appearance of The Consulting Partner’s Retirement Fund phase.

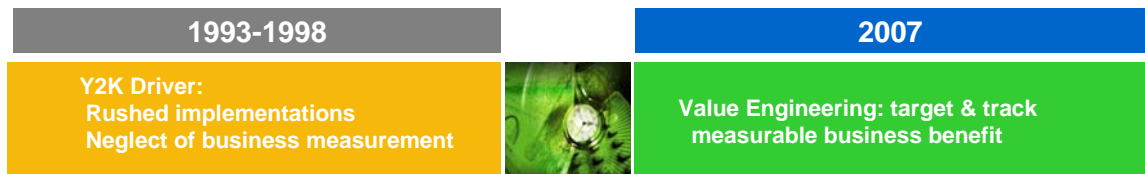
In the spring of 1997, SAP America unveiled its new methodology for implementing R/3. It was called Accelerated SAP or ASAP for short. After several improvements to this methodology in the intervening ten years, it is now called ASAP Focus.

ASAP Focus, to its credit, has a rational AS-IS phase and there is a treasure trove of tools that *will* help you speed up the process, such as a pre-canned project plan, an exhaustive inventory of business processes (related to SAP module chains), and a large number of template forms and procedures. Further, ASAP is built as a Microsoft Office™ kit, including Word documents, Excel spreadsheets, MS Project plans, and PowerPoint slide shows. It is possible to tweak the method by either including other documents or revising those that are offered to suit your needs and context.



Prior to 1998, the demand for experienced SAP consultants vastly exceeded the supply. It is estimated that there were only about 200 SAP consultants in North America in 1992 and they possessed, on average, less than two years of SAP experience. The negative effect of this shortfall on project quality was evident and contributed to project over-runs.

Today, you could fill a large stadium with SAP consultants possessing, on average, more than five years of experience.



One of the key drivers of SAP growth prior to the new millennium was the Y2K debacle as countless firms found that adopting SAP was only marginally more costly than simply repairing the current systems. Unfortunately, simply implementing SAP to solve the Y2K problem often meant that projects were rushed and, worse, did not include the targeting or measurement of business benefits. Back then, far too many clients that had implemented SAP were unable to quantify or articulate what benefit they had received for their investment.

Without the ticking bomb of Y2K, most SAP projects today include more rational deadlines. Further, it is now recognized as well that ERP, by virtue of its scale, risk/reward levels, and dramatic impact on an organization, has driven the subject of information technology into the boardroom. As such, company stakeholders require a solid business case when contemplating SAP investments. In recognition of this prime element, SAP has stepped up with Value Engineering by which clients can a) target business improvements at the Key Performance Indicator (KPI) level and b) track actual performance through time. It is strongly recommended that any firm contemplating adoption of SAP should complete a thorough Value Engineering exercise. This exercise is also recommended for firms that have already implemented SAP to assure that it is being effectively deployed and maintained.



The notion of business process reengineering was popularized by the enormous success of *Reengineering the Corporation* by James Champy and Michael Hammer, which appeared in 1993 just

as SAP was announcing its R/3 offering (the one that put the on the global map). Since SAP is a key enabler of horizontal business (e.g. Orders-to-Cash, Procure-to-Pay, etc.), an enormous amount of effort was expended in thousands of SAP implementations in which each firm redesigned processes (usually with the help of a systems integrator) and then configured SAP to meet those designs.

As of this writing, SAP claims more than 42,000 clients and we have long since reached a stage in which individual firms do not necessarily need to redesign new processes; instead, they can adopt processes that have worked for hundreds of other firms and are recognized as best practices. The massive reduction of time and cost relative to business blueprinting and SAP configuration (since best practice processes are pre-configured) has made SAP adoption far more affordable than ever before and the deployment of best practices is far more effective for clients than was their “homegrown” design.

Accelerated SAP Implementations

(This section is excerpted from The New SAP Blue Book, A Concise Business Guide to the World of SAP)

In 1995, the drums of the North American press began to pound out an impatient rhythm: SAP takes an eternity to implement. In 1996, that pounding turned to a steady, *noisy* beat and, in the spring of 1997, SAP America unveiled its new methodology for implementing R/3. It was called Accelerated SAP or ASAP for short. After myriad improvements to this methodology in the intervening ten years, it is now called ASAP Focus.

I once put instant coffee in a microwave and almost went back in time.

Steven Wright.

Once this methodology was released, consulting firms immediately raced to complete implementations faster and faster and the marketing world was dotted with ads and announcements like "Roadrunner Corporation Completes SAP Implementation During Long Lunch Break!" Note that rapidity, speed, *acceleration* are the keys to this methodology. The five basic steps are:

1. Project Preparation
2. Business Blueprint
3. Realization
4. Final Preparation
5. Go Live

The chart below provides a thumbnail estimate of the percentage of effort required for each phase in the context of a sample \$500,000 implementation.

Standard Implementation			Standard
Phase	Activity	% of Effort	Cost
Project Preparation	Scoping, staffing, team training	10%	\$50,000
Blueprinting	Enterprise modeling/business process design	25%	\$125,000
Realization	Configuration & customization / interfacing	35%	\$175,000
Final Preparation	Data migration, end user training	25%	\$125,000
Go Live	Cut-over and support	5%	\$25,000
		100%	\$500,000

Note that 60% of the project is devoted to blueprinting and realization. In the blueprinting phase, a client and systems integrator collaborate to design the over-all enterprise model and then the business processes that will address that model. In the course of this work, there is usually a lot of debate between various client members as to the process design. These debates tend to include arguments such as “that’s not how we do it here” answered with “but this is how we should be doing it.” Often, such debate will yield a slick business process design. More often, it will yield high costs, frayed nerves, and a business process design that is inferior. While the term may seem harsh, “organizational vanity” is the culprit.

Clients who accept new business processes based on best industry practices can avoid these costly arguments and, by consequence vastly reduce blueprinting. When best practices are adopted, configuration is also reduced since the best practice processes are already configured.

Consider the following scenario in which for this same sample project, best practices are adopted but require a bit of tweaking:

Accelerated Implementation			Accelerated	
Phase	Activity	% of Effort	Cost	Differ
Project Preparation	Scoping, staffing, team training, process fit	27%	\$100,000	\$50,000
Blueprinting	Enterprise modeling/business process design	7%	\$25,000	-\$100,000
Realization	Configuration & customization / interfacing	27%	\$100,000	-\$75,000
Final Preparation	Data migration, end user training	33%	\$125,000	\$0
Go Live	Cut-over and support	7%	\$25,000	\$0
		100%	\$375,000	-\$125,000

Such adoption is usually far easier for small and medium enterprises and thus fully accelerated implementations occur more often in that arena.

In such a scenario, project preparation is more costly due to the process validation required to identify which processes can be fully adopted and which will require some process change. By consequence, blueprinting costs are vastly reduced as are configuration costs since the best practice processes are pre-configured.

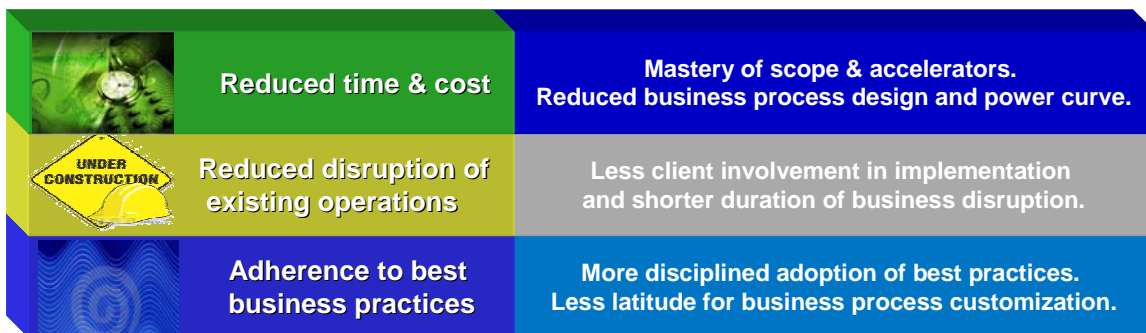
The result is a cost savings of 25% with a similar compression in the time to go-live.

In essence, the greater the adoption of best practices, the higher the savings. In many, many cases, clients have no blueprinting costs at all.

You may ask, "Where do these best practices come from?" The answer is that they are culled from more than 30,000 clients across seventy industries. In other words, the trailblazing has long since been accomplished, so why would your firm feel the urge to get out machetes to hack new trails?

The bottom line is that adapting to best practices is not a "one size fits all" proposition but a "one way best fits most" proposition.

Time and cost reductions are not the only benefits of an accelerated implementation.



It is essential not to lose sight of the fact that the implementation should yield measurable business benefit and readers are strongly advised to precede any such implementation with a Value Engineering exercise.

In past years, too many clients opted for accelerated implementations that, quite simply, skipped over organizational change management, foreshortened user training and other knowledge transfer, and raced through data migration with insufficient data cleansing...only to find their time and cost savings eroded by a faulty go-live.

In the chapter of The New SAP Blue Book, "SAP by the Numbers", Paul Reynolds presents findings from Performance Monitor's 2007 study of 298 SAP projects which included an inventory of the problems that arose in the course of those projects.

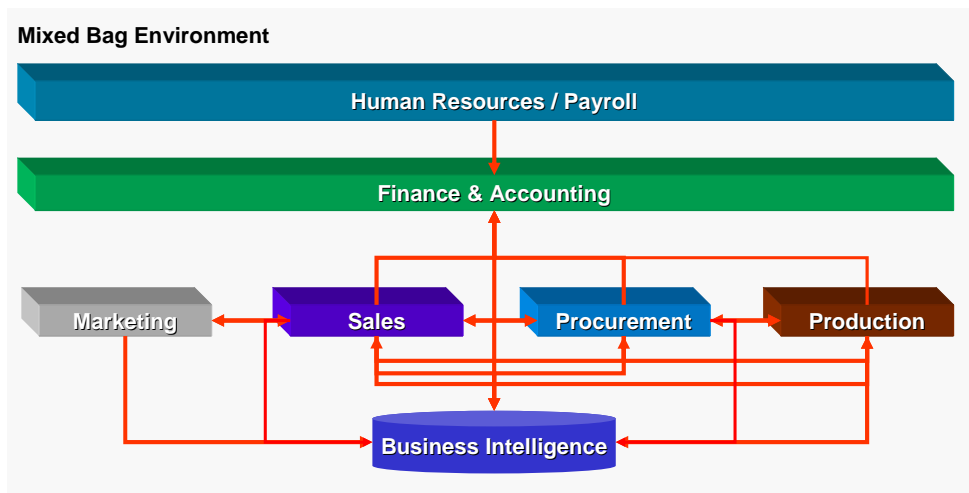
While the two most frequent problems relate to the clients' systems integrators and only effect the project itself, the third most frequent problem, 'insufficient post-implementation planning', has long-lasting consequences.

Thus, while this chapter provides an outline as to how an initial implementation will take place, the next chapter (There's No Such Thing As Having SAP) provides guidance as to what is in store after go-live. (also see "Thrive After Go-Life, a white paper available at www.michaeldoane.com)

The bottom line is that the majority of initial SAP implementations in the small-and-mid-size market take from four to six months.

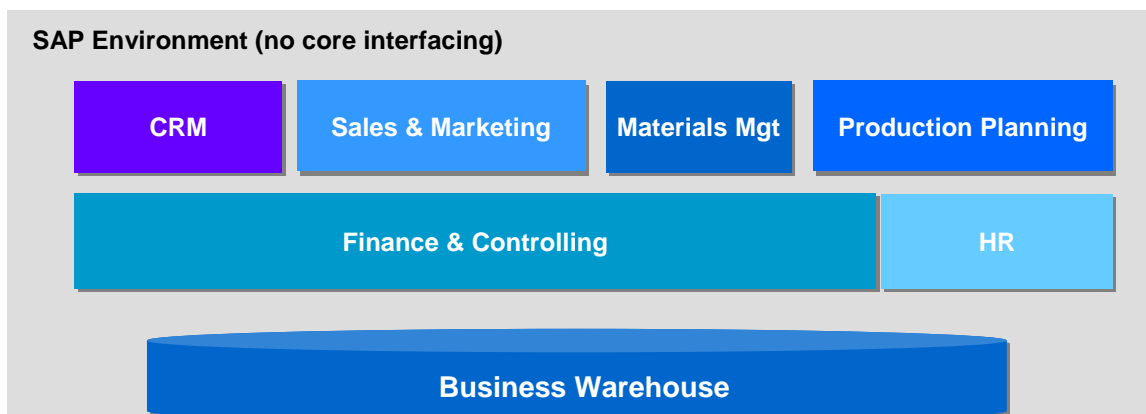
"SAP is Too Complex"

No one in his right mind would claim that SAP is not complex. By the same token, no one in his right mind would claim that an IT plant of vertically-integrated stand-alone applications written in a diversity of programming languages and requiring disparate databases is not complex.



Those red lines are interfaces. Phone calls, e-mail, snail mail, FedEx, and, yes, a high percentage of your middle management are also interfaces.

In an SAP environment, interfacing is vastly reduced as the SAP applications are tightly integrated. As one client put it, "With SAP, if a pin drops on the shop floor, we can hear it in accounting."



Further, with the ascendance of NetWeaver, SAP is solving the problem of application diversity, thus reducing the complexity of firms that have SAP applications along with a high level of legacy applications and/or other enterprise applications.

SAP has invested heavily since 2003 in the development of NetWeaver, which is the foundation for Enterprise Services Architecture, or ESA. This architecture offers increased levels of adaptability, flexibility, and openness. "Openness" means that SAP applications can work with non-SAP applications. Such openness is one of the key distinctions between SAP and the various components of the Oracle offering. While Oracle wants its clients to have nothing but Oracle software under the hood, SAP recognizes that most organizations will necessarily have other applications software and therefore need an architecture that will enable complete integration in terms of application processing, business intelligence, and data integrity and harmonization.

Some of the key components of NetWeaver are as follows.

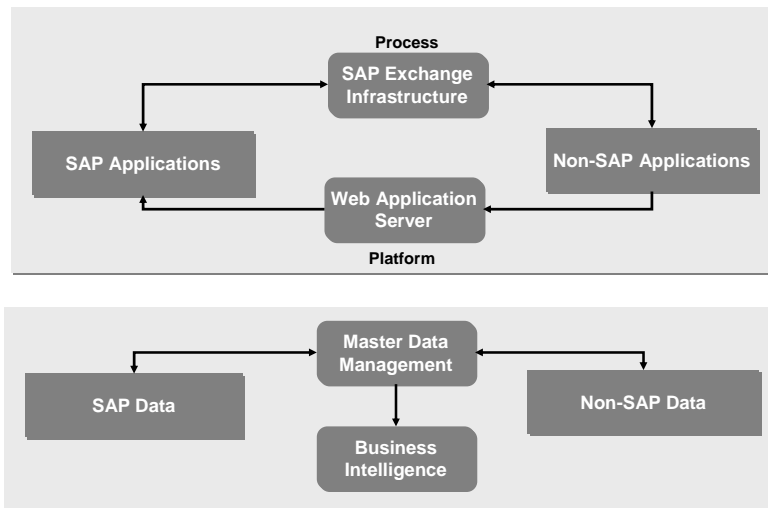
SAP Enterprise Portal provides a complete portal infrastructure along with knowledge management and collaboration software. An enterprise portal gives end-users access to multiple types of information and applications through a standard interface.

SAP Business Intelligence makes information actionable by helping companies identify, integrate, and analyze disparate business data from both SAP and non-SAP sources.

SAP Master Data Management is the foundation for providing harmonized, consistent information to both SAP and non-SAP applications across the enterprise.

SAP Exchange Infrastructure provides open integration technologies that support process-centric collaboration among SAP and non-SAP components both within and beyond enterprise boundaries.

SAP Web Application Server is a development and deployment platform that supports Web services, business applications, and standards-based development based on key technologies such as J2EE and ABAP™.



“There is no ROI to an SAP Implementation”

The New SAP Blue Book includes a chapter written by Michael Connor on the subject of gaining measurable business benefit with SAP. It can and has been done in firms that have been focused on business measurement rather than simply the time and cost of implementation.

Consider the results for these three clients:

Manufacturing	
Key Performance Indicator	Impact
Factory schedule attainment	10%
On-time shipping	15%
Distribution productivity	+15% in the shop, +20% in the office
Accounts receivable productivity	+17%
Accounts payable productivity	+ 16%
Purchasing productivity	+36%
Output of air-handling equipment	+18% without increasing the number of shop employees

Retail & Distribution	
Key Performance Indicator	Impact
Inventory levels	-30%
Warehouse space requirements	-38%
Month-end financial closing process	- 5 days
Days sales outstanding (DSO)	- 44%
Staff devoted to receivables and collection	-34%
Sourcing lead times	- 33%
Customer service, warehouse, and credit headcount	0% increase with >100% growth in sales

Consumer Bakery	
Key Performance Indicator	Impact
Order Fill Rate	*+2%pts
Returns	-4%
Days in Inventory	-10%
Inventory Write-Downs	-60%
Fixed-Asset Utilization	5%pts

This is the stuff of dreams for many CEOs who put their foot to the gas only to find that nothing happens. All three of these tables are taken from www.sap.com. There are hundreds more.

In closing, consider the advantages that SMEs have over the giant enterprises.

Advantages of SME Firms Compared to Large Enterprises	
Advantage	Effect
Smaller organizational hierarchies	Increased process agility Decreased change management issues
	Increased ability to consolidate data and financials
Fewer operational sites	Decreased roll-out requirements Lesser chance of process differences between sites
Less institutional inertia/resting on company tradition	Increased ability to change organization & processes
Less organizational complexity	Reduced business measurement complexity

If you are in a small-or-mid-sized firm, you can achieve tremendous business benefit from SAP, at a reasonable cost, in a reasonable time-frame. Cut out the sticker below and pin it to the wall. You can point it out to the next person quoting those myths.

Yes, I Can

SAP accelerated implementations are affordable. SAP is less complex than most traditional vertically -interfaced IT applications clusters. SAP provides a huge support eco-system. There is abundant evidence of measurable benefit derived from SAP. SAP works even better in small and medium-sized enterprises than it does in very large enterprises.

About the Author

Michael Doane is a leading authority on enterprise applications, Mr. Doane has thirty-four years of business and information systems experience, including sixteen years in consulting. He advises clients on strategies, implementation and integration, service provider selection and management, and best practices and methods for deriving value from enterprise applications investments.

From 2001 to 2007, he was an industry analyst with META Group and Performance Monitor. During this time, he led numerous research initiatives into the best practices for systems integration and enterprise application management.

In addition to prior roles as a practice lead at Grant Thornton and The Consulting Alliance, Mr. Doane has directed several major consulting engagements for large systems integrators, most notably in financials and logistics, in North America, Europe, and Asia. Prior to entering the world of consulting, he was the European IS director for the Plessey Company Ltd. and for Ferry Peter, a division of Wiggins Teape.

Mr. Doane is the author of the recently issued *The New SAP Blue Book, a Concise Business Guide to the World of SAP*, which is a wholly revised version of the celebrated *SAP Blue Book*. In addition, he has led numerous executive seminars in the U.S. and Europe on the subjects of implementation best practices, return on information systems investments, and application lifecycle management.

Parts of this white paper are adapted and expanded excerpts from *The New SAP Blue Book, a Concise Business Guide to the World of SAP*. This book is not sold in bookstores and can be obtained through sapbluebook.com or via e-mail orders to michael@michaeldoane.com.

This white paper is sponsored by VSS Incorporated.

About VSS

VSS is a certified SAP services and channel partner and excels at helping clients implement SAP software in the small-and-mid-size market. With a strong focus on projects that are completed on time and on budget, VSS also helps clients gain measurable business benefit through improved business process and IT agility.

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