

SAP Business One®: What Users Need Today & In the Future

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Executive Summary

SAP Business One is a new offering from the largest business application software company in the world. It offers tremendous potential synergy for buyers of mid-market ERP software by combining state of the art technology and first class business consultants with companies who are serious about building a highly tailored ERP system that can organically evolve no matter what future challenges their business may face.

Review of SAP Business One

SAP America introduced its SAP Business One product a little over a year ago. You may have heard of it but are not sure what to think of it. Is it like the mySAP™ Business Suite which is a tier one product that can cost millions to implement? Exactly what is it and is it a worthy competitor in a market already crowded with quality software for the mid-market?

To answer this question we must look at what is important to users today when they consider new software. First, users are reluctant to buy any new system unless they absolutely must. What are the musts that drive them?

- Outrageous maintenance costs on their legacy system. One fairly small manufacturer I spoke to is using a tier one manufacturing product which costs him \$50,000 a year to maintain. The system is very old technology and is a headache to run. The \$50,000 is money down the drain.
- Users want the software to emulate their processes, not the other way around. Most products are not designed to adapt to user processes. You usually have to follow the way the system is designed to process transactions.
- They want something scalable so that if they grow, the system can keep up with them in terms of adding necessary functions, new databases, modifications to data fields, expanded reporting, and expanding into new applications such as CRM and supply chain optimization.
- Users want to minimize long-term maintenance costs. For example, they want an easy upgrade to new versions of the software without having to go through expensive retrofitting of modifications.
- Users want their own staff to support the product (add new reports, manage the database, do simple customizations, etc) without having to call in expensive consultants.
- Single source accountability: Ideally, they want to work with a single vendor that they think will stay in business through thick and thin and one they are confident will provide quality support and continually improve their product.

Not by accident, SAP Business One is designed to meet all these objectives.

The following brief report summarizes what I learned about SAP Business One from personal review of the product, demos and conversations with users and resellers.

Global

SAP Business One is the base application in the SAP family of products. It is the starter product for the mid-market and scales up to mySAP All-in-One partner solutions (preconfigured, vertical market solutions) and then to mySAP Business Suite at the top which supports multiple databases and has virtually unlimited capacity for transactions, entities, locations, etc.

SAP Business One is very horizontal but not a light-weight product. It can compete head to head with any mid-market solution on its merits. For sophisticated users who may need functionality not found out of the box they will find it can be added cost effectively as required. The growth path is really unlimited.

Moreover, the system can be easily adapted to best practices for any industry or specific user.

What is absolutely unique about this product?

In my opinion, SAP Business One can make a good case for the following:

Ease of customization and upgrades: SAP Business One offers simple customization within the product to include: adding user fields, changing field labels, and even an easy way to create tables. These do not require a consultant to implement, but a consultant is recommended to help the user think through what modifications can be useful in meeting business goals as well as configuring the product.

Software Development Kit (SDK) is available for resellers/consultants to make more advanced modifications to the system. This is the Applications Interface (API) front end to the SAP Business One database backend. Its typical use is to integrate 3rd party software to SAP Business One. Data mappings from foreign systems are controlled through the API (which contains all the business logic) so customizations or upgrades do not affect the system and do not require rewrites as is usually required of other products. This is confirmed by resellers who state that the cost of upgrading a customized SAP Business One system is only a small fraction of other products they have sold.

The SDK can be used to modify the system internally, again without affecting upgrades. Typical examples might be for highly specialized customer pricing, events monitoring, sales tax computation or preparing special forms for a company that needs documents prepared in a foreign language for product exports.

Best practices. This generally refers to how various processes are set up to meet the company mission. One common example is how to process purchase order receipts. In an old legacy system, there might be a 3 way match process between receiving, invoicing and the purchase order (PO). Newer practices might dictate simply receiving items within the parameters of the PO and paying whatever they are authorized to pay by the PO without dealing with the vendor invoice at all. With SAP Business One it is trivial to set up the receiving transaction and have a fully authorized invoice created for payment with a minimum of steps.

Business alerts: Sales persons can get overly aggressive with pricing and cut margins below an acceptable level. SAP Business One can be designed to compute acceptable margin cutoffs and alert any manager by e-mail should margins be unacceptable for an order. Other systems can do that too using a simple message but SAP Business One can actually stop the processing entirely until the approving manager releases the order. Furthermore, the SAP Business One user can drill down anywhere into the system directly from the e-mail to gather more information to determine the disposition of the alert. The same thing could also be done if a customer exceeds his credit limit.

One of the unmet needs for mid-sized businesses is outside monitoring of their financial data. Who better to do that than their trusted CPA? A truly valuable service would have CPAs proactive in monitoring critical data points such as Accounts Receivables, Accounts Payable, and inventory levels using the extraordinary data access offered by SAP Business One.

Foreign currency, international business. You can localize your desktop by language, currency, user screens, quote in one currency and sell in another, report in both local and system currency. The system was designed by a company which had extensive experience in international business and it may well be the strongest available for foreign currency processing.

Built in CRM capabilities/document control. The system has embedded CRM: It supports sales opportunities, pipeline analysis, basic service management and will track activity to documents as well as customers and vendors. For instance you can associate a journal entry with a particular document and keep track of contacts relating to that entry through Business Partners. However, it does not support true marketing campaign management.

Broad number of applications for a new product SAP Business One covers a lot of territory including GL, AP, AR, Sales Orders, Purchase Orders, Inventory and Production for light manufacturing. It is also fairly easy to address professional time and billing, and more either through customizations or SAP certified Partners.

Database options: Runs with Microsoft SQL. This summer it will offer Sybase, DB2 and Linux.

Quality resellers/consultant network: Unlike some vendors whose resellers range from pretty good to pretty bad, SAP has carefully recruited from the top tier of experienced, competent resellers who have very strong business as well as technical backgrounds. So your risk of getting involved with a poor reseller is greatly reduced.

Windows technology SAP Business One is a product which makes full use of Windows conventions and more. You can easily resize windows, expand/contract column widths, use control home/control end to move to the top or bottom of lists. An unusual Windows help system lets you search for the information needed and then provides every instance that topic is covered in a subject list. You select the subject that relates to your question and the system facilitates finding it by highlighting that item for each occurrence.

Another capability that few systems offer is that you can be entering a particular type of transaction in one window and start the same type of transaction in another window without having to close the first window.

Queries and drill downs Good use is made of SQL. You can quickly locate any information from any screen by using predefined SQL queries. For instance you could be entering a journal in general ledger and decide you need to look at item information. No problem—just go to the tools/queries menu and choose the query you want. Once selected you see a SQL statement. If you are adept at SQL, you can modify the statement for a more specific query or just click on opening up the results of the query in a table format. All queries provide drill downs to lists of documents that meet the query criteria. You can then drill down to the actual source document in the list.

Drag and Relate Queries

Another approach to accessing more detailed information about any Business Partner or transaction is Drag&Relate. This is a highly touted capability to perform detailed queries from any transaction window or Business Partner screen. One example might be to bring up a sales quotation window, select any item on that quotation and then drag it to the quotations menu within the drag and drop menu list. You would then see a list of all quotations where that item appeared and then could drill down to a specific quotation and see all associated details. If you want to see only certain quotations you use the filter screen and select quotations using various selection parameters; date, amount, quote numbers, etc.

SAP Business One has the power but like most software packages users must be prepared to make a substantial investment in consulting, conversion and implementation to get optimal benefit. The typical cost is one to one, software to service fees. The cost of acquiring SAP Business One can range from about \$15k all the way to six figures depending on the number of users and degree of customization.

Now lets take a closer look at each function:

General Ledger

The heart of any financial package is general ledger. SAP Business One offers a very powerful one that can scale from a small company with one entity all the way up to multiple entities with different currencies, different charts of account and even consolidate them. It is not likely that someone would buy this system just for its general ledger, but it is powerful enough to maintain a full blown accounting/disbursement system just within GL. Currently inter-company transactions are only supported through the use of importing/exporting transactions between entities. A developer add on is promised for summer of 2004.

The chart of accounts supports account codes up to eight characters and 5 segments, (e.g. entity, division region and profit center). Project accounting can be accomplished by relating a project to an account code or, to simplify the chart of accounts, you can enter project codes as a separate field during transaction entry. The account codes are used as the basis for financial reports. It is easy to move accounts to different reporting categories. Up to 4 subtotals are supported for financial reports.

Journal entries can be designed to accommodate recurring and reversing entries, allocations and foreign currency differences computed by transaction using daily exchange rates. There is a whole array of foreign exchange reporting from conversion gains and losses all the way to inventory revaluations, all done on a very precise basis. You can define as many journal types as you wish using the on-the-fly table additions capability. There are multiple reference fields available in each journal entry. The system maintains a system current period date range. Any entry to a date falling outside that date provides a warning before posting it.

Budgeting

SAP Business One monitors spending vs. budget for you. Employees are alerted when attempting to purchase an item that exceeds certain budget parameters. When this situation occurs a workflow is triggered in the system that requires an approval before the transaction can be completed. With this feature you are able to manage by exception on a real-time basis which allows for better decision making.

Three budgeting scenarios are supported, e.g original, optimistic, pessimistic. The system will help you prepare variations of the base budget based on simple percentage changes from one budget to another.

Financial Reports

Reports are defined by the way you set up the chart of accounts. Balance Sheet, P&L and cash flow are automatically defined. You can redefine reports simply by moving accounts to different reports “drawers” within the report layout.

There are also report templates you can set up to show only limited portions of the statements.

Printing balance sheets and income statements brings up a menu that lets you select periods to report by clicking on period icons. You can print out either annual, quarterly or monthly reports using the standard chart of accounts format or a custom template. You can select the account segments to report in order to expand or limit details. An unusual feature is that you can select noncontiguous profit centers to report within the segments. You can also optionally include balances in the local and system currency on reports.

It is also easy to compare any two periods for balance sheet items, something most systems cannot do. Another unusual capability is to include both beginning and ending inventories within the Income Statement.

Accounts Receivable and Accounts Payable aging reports are curiously located within the financial module reporting menu. You can get a report which will reconcile the invoice aging with journal entries created in GL.

Audit trails

SAP Business One offers a solid general ledger audit trail. You have the ability to easily trace entries from the general ledger summary back to individual postings and then back to the source transaction itself. Each entry identifies the transaction type, individual transaction number, and a brief description of the entry. You can print each ledger code on a separate page allowing for easier audit of detailed records.

Another nice audit control offered is the tracking of changes to master file records. You can see the before and after data, who made the change and when the change was made.

Sales Opportunities

A very solid sales pipeline application is available within SAP Business One. It will record all contacts, notes, follow-up dates, and even let you associate documents for project control purposes. Partners and competitor information is identified in separated tabs. There is also built-in decision support for purposes of sales pipeline analysis. The design of SAP Business One supports input for sales opportunities from anyone in the organization at any time.

Sales and Accounts Receivable

This application ties in all aspects of quoting, sales orders, work order creation and invoicing into one place.

Let's use the scenario of a company which does quotes before getting firm orders. This is typical of many manufacturers, and contractors who do installations of kitchens, cabinetry and the like. Quoting supports entry of everything necessary to create an actual sales order once the customer approves the quote. You can quote in a foreign currency, and work with virtually any kind of pricing scheme, sales tax requirements or payment terms. Payments can be defined in installments and you can define new payment terms on the fly.

We especially liked the ability to access and enter multiple inventory line items at one time into the quote by using the control key. The logistics tab lets you designate the bill-to and ship-to location, commissionable salesperson, but we did not see the ability to identify a 3rd party payee as required by businesses who work with factors.

Business Partners

SAP Business One uses the motif of identifying customers and vendors as Business Partners (BP). But the database for Business Partner customers is far beyond a typical customer record. It is really a blend of accounts receivable data, contact management, service management (designed for support contacts), and sales opportunities. For example, you can drill down to outstanding deliveries, opportunities and orders. You can click on a graph icon to see revenues, gross profit month by month for the customer in tabular and bar code format.

Payments and delivery notices can be consolidated to a master BP record for purposes of handling payments for branch shipments of a headquarters location. Returns are accomplished by entering detail line items for the customer. We would also have liked to see an option to bring up an invoice and to simply reverse it.

To invoice a quote in AR you simply open the quotes list for that customer and select the quote to bill.

For purposes of applying payments, you go to the "banking" function and select incoming payments, select the customer you want to credit for payment. You then see a table of open items for that customer and select the invoice to pay, either in full or partial.

Within the sales/AR module you can print two sales analysis reports showing revenue and gross profit history by customer or revenue and gross profit and units by item. If you want to do a customer ledger reconciliation (beg. Balance, invoices/payments, balance due) you would have to run the "link payments to invoices" report and see what payments were applied to what invoices. A canned report or query to do this would be a nice addition since there are several steps in preparing this type of report.

The system comes with predefined, and modifiable, forms for a variety of transactions including: quotation, order, delivery, returns, invoice, credit memo, and stock transfers.

Purchasing and Accounts Payable

Purchasing and accounting are integrated so that you can either receive items and update vendor payables and inventory or record a vendor invoice and update inventory and payables.

Any kind of sales tax is supported as well as VAT taxes for countries that require it. You can add new inventory items to a PO on the fly and items ordered can be components within a bill of materials.

You can order items or services. The system checks to see if there is adequate budget for the account being charged for that PO and warns you if the budget is exceeded.

As you would expect with a system that is so strong for international business, SAP Business One supports very specific landed cost computations and tracking. It will allocate item costs by, weight, volume or amount for each stage of receiving for purposes of accurate inventory costing.

Inventory

SAP Business One inventory supports distribution and light manufacturing.

Each item can be identified as an item for purchase (required for PO's), sales items (required for sales orders) and or a warehouse item (required to post item movement). You can also have labor items which is useful when you are a professional services business. Each item can have its own price list so customer pricing options are really unlimited.

Each item can be defined by weight or dimension (volume) thus offering manufacturers great flexibility in measuring production volumes. Items can also be purchased, packaged and sold in different units. Very few systems offer this degree of flexibility. Up to 64 "properties" can be assigned to an item for reporting purposes.

The system is strong on multi-warehousing. You can see what is in stock, ordered and available by warehouse. Cycle count information for each item as to what was counted and when, can also be tracked.

SAP handles the following inventory transactions: goods received, goods issues, stock transfers (to other warehouses), entry of beginning balances and entry of cycle counts.

Production

SAP Business One supports 4 types of production bills of material: **Production** -used to create production work orders; **Sales Bill of Material**—an assembled item which is to be sold where both the finished item and its components are shown on the sales order; **Assembly Bill of Materials** (like a kit of assembled parts); **Template Bills** which allow you to switch components in and out of a finished item (similar to a configurator capability).

You can create work orders needed for production and do a simple check to see what might not be available to complete the work order. Work instructions can be entered with the work order. This module is a limited initial step into a light manufacturing capability for SAP Business One but a basic MRP product is expected summer 2004.

Human Resources

This is a database for tracking essential employee profile information and is handy for tracking absences, skills/education and reviews. It does not interface directly with a payroll system. There are 5 different tabs to enter and maintain basic employee demographics.

Downers

No system is perfect, certainly not one that is relatively new. Here are some of the less than perfect issues I encountered with the SAP Business One. None of them is major.

- Sometimes you can get SQL server error messages which have to be interpreted e.g. “cannot insert duplicate key in object”
- The system uses a lot of abbreviated terms, e.g. LC, SC on financial reporting selections
- Report criteria does not show on the printed financial reports or drag and drop queries
- It is very easy to get lost with multiple windows open
- There are easy to find topics in on-line help but it lacks sample screens with graphic representations
- Non-traditional terminology and reports cause users to get comfortable with some unusual terminology, e.g. Business Partners usage and the fact that both customers and vendors are treated virtually the same way in the Business Partners master records.
- Non standard reports and terminology. The system lacks some basic standard reports such as a vendor or customer ledger. However these reports can be created through templates or user queries.

- Many less sophisticated users with straight forward needs will be better off with more traditional products even if the system does not offer all the flexibility of SAP Business One.

Summary and recommendations

If you are willing to make the investment to rethink your business processes and practices from the ground up, have unusual needs (especially with cross industry requirements), desire to control and minimize long term maintenance costs and want a system that won't become obsolete in the near future, I recommend you take a serious look at SAP Business One.

With SAP Business One you can count on the backing of a committed vendor, top notch resellers and state of the art software.

***Bio:** Sheldon Needle, CPA, has been a nationally recognized expert on financial software for the mid-market since 1984. He is the author or co-author of 15 books covering a variety of industries which are designed to help users evaluate and choose the best software for their needs.*

Over 20,000 businesses and consultants have used his publications to help choose their new software. Sheldon is also an active speaker and publisher of articles on software selection. His company, CTS, is based in Rockville, MD.

