

# SMBs Prefer an Integrated Business Applications Suite



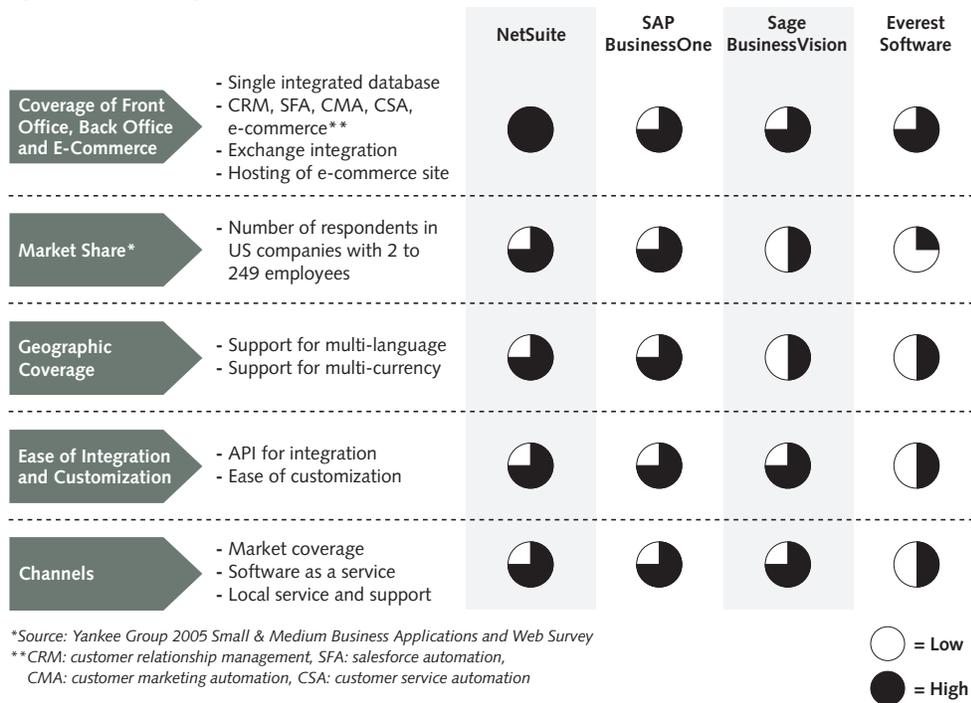
<b>Decision Point:</b>	Optimizing the Applications Delivery Model for the SMB and Mid-Market Enterprise
<b>The Bottom Line:</b>	The integrated suite of applications and all its modules need to work together seamlessly with a single integrated database to help a company keep an eye on its overall operations and business results.
<b>Key Concepts:</b>	SMB, software as a service, SaaS
<b>Who Should Read:</b>	CEO, CIO, CTO, VP of sales and services, VP of marketing of SMBs and vendors

Practice Leader: [Steve Hilton](mailto:shilton@yankeegroup.com), Director, [shilton@yankeegroup.com](mailto:shilton@yankeegroup.com), 617-880-0241

## NetSuite Is the Market Leader in the SMB Integrated Application Suite Space

With seemingly every business application vendor providing solutions for the SMB market, the need to efficiently target and deliver integrated solutions is paramount. Vendors and solution providers must look for visionary and creative ways to deliver comprehensive solutions to SMBs. These companies must understand how SMBs in different industries use business applications to better target their customers and become more efficient.

**Exhibit 1.**  
**Ranking of SMB Integrated Business Application Suites**



Source: Yankee Group, 2006

Exhibit 1 shows a relative ranking of integrated business application suites targeting US-based SMBs, with NetSuite in the lead. All suite modules (front office, back office and e-commerce) must work together seamlessly with a single integrated database to help a company keep an eye on its overall operations and business results.

## Myriad Applications Overwhelm SMBs and Mid-Market Enterprises

For SMBs deciding to adopt an on-demand software-as-a-service (SaaS) application suite, is the sum of different solutions' parts greater than one integrated solution suite?

Application vendors barrage SMBs and mid-market enterprises with messaging on the benefits of applications, application suites and hosted solutions. What type of business should adopt a point solution versus an application suite? What type of business should opt for a licensed versus a hosted solution? How can vendors help companies understand their business and operational needs (see Exhibit 2)?

The Yankee Group *2005 Small & Medium Business Applications and Web Survey* and discussions with representative SMBs indicate a strong interest in integrated application suites and a growing interest in software-as-a-service business and application delivery models.

### Industry Drivers

Larger businesses went from a best-of-breed or cobbled approach through the 1990s to a suite approach since 1999. Although a *Fortune 1000* company doesn't have 100% of its business based on one of those applications, the backbone—the majority of standard and industry processes—is probably on SAP, Oracle or PeopleSoft. Now, SMBs have access to integrated suites of business applications built for their needs and sophistication. SMBs like the integrated processes, simpler management, better reporting and having one supplier of the integrated business applications suite. SMBs are also being pushed by their larger trading partners to comply with their reporting requirements and business practices. The integrated business application suite makes it easier for them to aggregate the information required for compliance purposes. Yankee Group predicts that a high percentage of midsize and small businesses will adopt an integrated suite of business applications in 5 years.

### Exhibit 2. Understand SMBs' and Mid-Market Enterprises' Business and Operational Needs to Determine TCO

Point Solutions	Application Suite
Value one or more critical applications more than other secondary applications	All applications important
Best-of-breed application more important	Application integration more important
Suitable for users that need lots of customization	Suitable for users that value out-of-box applications to be operational faster
Larger in-house or contracted technical resources for integration of independent applications	Don't have the IT and project staff to manage a slew of applications
Loss of productivity as data needs to be moved from one application to next	Higher productivity as applications share a single database
Each application with separate data model and repository	Single database
Integration and customization to develop end-to-end business processes	Seamless business process
Licensed Solutions	Software-as-a-Service (SaaS) Solutions
Pay upfront capital expense	Pay-as-you-go operational expense
High upfront cost and annual maintenance costs	Lower upfront subscription costs depending on number of users per month
Cost for applications, maintenance, infrastructure and IT/application resources	Cost for annual subscription and minimal IT/application resources
Longer time required to install and configure applications	Faster implementation and time-to-productivity
Not much control over vendor after purchase	More control over relationship with vendor
Greater risk for users	Better risk sharing with vendor

Source: Yankee Group, 2006

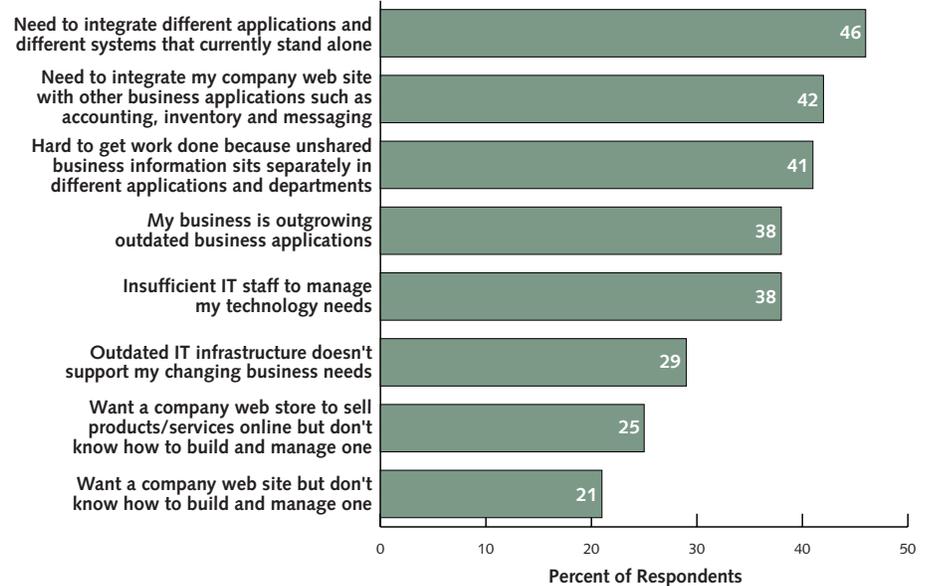
## Key Business Application-Related Technology Challenges

Respondents of the Yankee Group 2005 Small & Medium Business Applications and Web Survey voiced strong demand for this integrated business application suite paradigm.

Exhibit 3 shows the key technology challenges faced by SMBs. The need to integrate different systems and standalone applications is a key issue for more than 45% of respondents, followed by the need to integrate the company's web site with other business applications such as ERP, inventory and messaging. This is especially important for SMBs involved in online e-commerce.

Every company regardless of its size must maintain good relationships with customers, suppliers and partners, and adhere to consistent and lawful accounting practices. Many companies must manage both online stores and brick-and-mortar warehouses. SMBs look favorably on application suites that support these requirements.

**Exhibit 3.**  
**Key Technology Challenges Faced by SMBs**



Source: Yankee Group 2005 Small & Medium Business Applications and Web Survey

## Vendor Profiles

Several business application vendors provide integrated business application suites targeting the growing small and medium customer segments:

- **SAP:** BusinessOne and mySAP
- **Sage Software:** BusinessVision, Accpac
- **Microsoft Business Solutions:** Dynamics Navision
- **Oracle:** E-Business Suite
- **NetSuite**
- **Everest Software**
- **MYOB**

Some of the above vendors' solutions target SMBs (i.e., companies with fewer than 250 employees), while others are more prevalent in the mid-market space. Some vendors also specialize in certain industries.

SAP's BusinessOne solutions target the discrete manufacturing, distribution and retail spaces while NetSuite's solutions focus on the retail, distribution and services industries, which have a bigger online e-commerce presence. Sage's BusinessVision offers industry-tailored solutions for several industries.

NetSuite is the only online business application that streamlines front-office, back-office and e-commerce operations for growing businesses. NetSuite automates all key business processes—including lead generation, sales orders and product shipment—across the entire company. All data is held in a single system, so users can access one real-time view of all business metrics, enabling SMBs to make better decisions faster in an increasingly competitive landscape.

SAP's BusinessOne is gaining traction in Asia (especially China), where a Linux version is available. SAP also offers the most extensive support for local languages and complies with the legal and tax laws of more than 40 countries. NetSuite is rapidly expanding its presence in Europe and Asia. Sage's support for multiple geographies with the same application is limited.

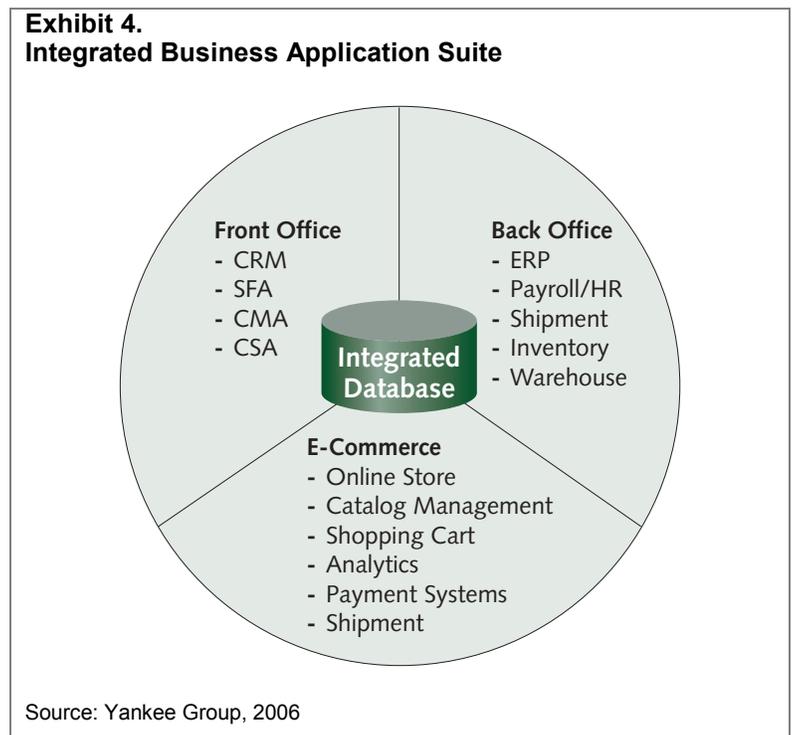
## Integrated Business Application Suites Enhance Productivity

The internet is the fastest growing and most dynamic sales channel for both SMBs and mid-market businesses. Several vendors now offer web site development solutions with integrated online selling solution development tools, such as a shopping cart, catalog management and secure online payment solutions. However, SMBs need an e-commerce solution seamlessly integrated with the front and back office to support an optimized workflow and process automation without the need to move data between different applications from several different vendors. This helps increase the productivity and overall efficiency of the workforce by reducing errors and time invested in data formatting and migration.

In an integrated suite of business applications, all modules work together seamlessly to help companies keep an eye on their overall operations and business results. As shown in Exhibit 4, the key pieces are:

- Front office
- Back office
- E-commerce
- Single integrated database and dashboard

Online marketing tools drive the e-commerce experience, but vendors can gain an advantage by also offering search engine optimization, web analytics, pricing engine, order and inventory management and shipping. Such solutions can help SMBs improve the customer, supplier, partner and employee experience.



## Recommendations

- **Vendors need to offer integrated business application suites that include front office, back office and e-commerce working from a single integrated database.** These are the core pieces that are required to run an SMB enterprise efficiently.
- **Vendors need to offer hosted solutions.** The SMB market has shown a very favorable disposition to on-demand hosted solutions, where they rent the solutions on a monthly per-user basis. Vendors that don't offer these solutions must plan to do so in the near term. These solutions must be hosted directly by the application vendor working closely with two or three application hosting vendors. This is essential to maintain quality and deliver on service-level agreements (SLAs).
- **Vendors must offer relevant, quantifiable SLAs.** For companies that depend on e-commerce for their revenue, reliable service with a high level of availability guaranteed through SLAs is vital.
- **Solution providers must support well-planned and tested business continuity and disaster recovery plans.** SaaS depends on a reliable hosting infrastructure. Solution providers need to have mirrored data centers to support business continuity in case of disasters and outages.
- **Expand sales and customer support channels.** To effectively reach the vast SMB market, application and solution vendors need to work effectively with the local value-added resellers (VARs), which are the vendors' preferred channel and advisors.
- **Build an expanded complementary application partner ecosystem.** This is essential to provide niche applications required to implement vertical industry solutions.

## Survey Methodology

The Yankee Group *2005 Small & Medium Business Applications and Web Survey* is a comprehensive study of the adoption and requirements of SMBs for business applications and web site services. We collected data online during October 2005. This web-based end-user survey polled 700 US-based SMBs across all industry segments. Survey questions probed SMBs' business application and web site needs, preferences and purchasing behaviors.