

Business Process Requirements for Indonesian Small Medium Enterprises (SMEs) in Implementing Enterprise Resource Planning (ERP) and ERP Systems Comparison

Putu Wuri Handayani

Faculty of Computer Science Universitas Indonesia

Email: putu.wuri@cs.ui.ac.id

Achmad Nizar Hidayanto and Indra Budi

Faculty of Computer Science Universitas Indonesia

Email: {nizar, indra}@cs.ui.ac.id

Abstract—Based on Central Agency on Statistic (Badan Pusat Statistik – BPS), the growth of SMEs in Indonesia is increasing rapidly. In order to increase their competitive advantage, SMEs need to implement ERP system. However, most of ERP systems in the today market are very complex and not suitable for Indonesian SMEs. This paper presents the requirements of Indonesian SMEs' main business processes which are focusing in marketing, distributing, selling and production processes by randomly distributing questionnaires to SMEs. Based on our analysis, those processes are urgently needed to be standardized and implemented in ERP system due to their strategies to increase their market share. In addition, this study also conducts the comparison of ERP systems through thorough observation to give insight for SMEs owners if they choose to buy an ERP system. According to our observation, SAP Business One or Compiere Community Edition could be selected by SMEs due to their detailed and complete processes.

Index Terms—Enterprise Resource Planning, Small Medium Enterprise, Business Process, ERP Systems Comparison.

I. INTRODUCTION

Pursuant to data published by the Ministry of Cooperative and SMEs Republic of Indonesia data, one of the biggest contributions of Indonesian GDP is SMEs which shares 57.12% of GDP in year 2012 and the biggest Indonesian SMEs is home and small scale industry (equal to 98% from total number of SMEs in Indonesia). Based on the BPS, a small scale business is identical to small scale industry and home industry. BPS classified the type of industry based on the number of employees as follow:

- Home industry: 1-4 employees; revenue ≤ 1

billion Rupiah/year

- Small industry: 5-19 employees; revenue ≤ 1 billion Rupiah/year
- Medium industry: 20-99 employees; revenue 1-100 billion Rupiah/year
- Big Large industry: > 100 employees; revenue ≥ 100 billion Rupiah/year

One of the critical missions of Ministry of Cooperative and SME of the Republic of Indonesia is to increase the number of SMEs in Indonesia so that the growth of Indonesian economic is expected to remain constant positively. Considering the tight competitions in the future among SMEs and large companies, SMEs must have beneficial values that enable them to minimize cost and maximize profits. The option to this case is to implement ERP concept and system so that they could simplify, automate and integrate their process and system. As result of implementing ERP, theoretically and practically SMEs could reduce their operating costs and improve their performances e.g. providing better customer services, reducing lead time and providing faster information [1]. However, Indonesian SMEs have their own characteristics, particularly they face several main issues such as low of IT adoption awareness, limited human resources, knowledge, IT infrastructure, and funding, undefined operational procedure and simple business processes. To be a winner in the today tough market competition, SMEs need to equip themselves with necessary tools to support their growth and existence.

Based on study from Saini regarding to ERP implementation key success factors in Indian SMEs, one of the success factors is SMEs need to align their business processes to match ERP system in order to minimize the amount of customization needed [5]. Unfortunately, most of the SMEs in Indonesia are still operating their business manually and traditionally without a defined operational procedure to manage their data because of small number of transactions activities. Study from Fathul Wahid and

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Corresponding author is Putu Wuri Handayani

Lizda Iswari [2] on 146 SMEs in Yogyakarta showed that there is only a small portion of those SMEs that have adopted IT. The barriers of this adoption are mainly due to financial constraint and the view that IT has insignificant portion to support their business activities.

Although ERP systems can bring competitive advantage to organizations, it is the high failure rate in ERP implementation that is the major cause of concern across the industries [4]. Therefore, in order to make it successfully adopted by SMEs in Indonesia, we need to customize and localize to suit the needs of SMEs. Considering this, our paper discusses the study on the requirements of best practices business process to simplify the ERP implementation in SMEs. The contributions of this paper are twofold:

- First, we formulate simple business processes that are expected meet with the Indonesian SMEs requirements
- Second, we compare ERP systems to give insight to SMEs owners when they choose to buy an ERP system.

The remaining of the paper is organized as follow. Section 2 explains the previous works, while the research methodology explained in section 3. Analysis of business processes requirements for SMEs and ERP systems comparison are discussed in section 4. Final section discusses the conclusions and future works of this research.

II. PREVIOUS WORK

The importance of cost reduction and efficiency improvement objectives of ERP system adoption was emphasized in all the companies regardless of their size. Also, the findings suggest that small companies experience more knowledge constraints than their larger counterparts in ERP adoption [8]. Study from Govindaraju and Chandra found that most of Indonesian SMEs participating in the study have strategic plans to adopt higher level of e-commerce, though majority of the firms currently still adopt e-commerce at the lower level [6].

Fahmi has conducted study of ERP open source software customization for furniture SMEs using OpenBravo. His study concluded that ERP system customization and localization is one of the key success factors for ERP implementation due to SMEs' limitations such as lack of funds and resources [3]. Zain's study tried to minimize the problems of ERP implementation for small to medium cigarette company such as lack of accurate good information in inventory, disintegrated systems among departments and obsolete systems through Framework for Applications of Systems Thinking (FAST) [7].

III. METHODOLOGY

In order to achieve our objectives, we conducted a set of activities by firstly identifying the standard business process for marketing and distribution, procurement and production process. This standard process will also be compared with SAP ERP best practices as its one of the

leading ERP software. In addition, the standard processes are obtained by comparing top open sources and proprietary systems which are SAP Business One, Microsoft Dynamic NAV, Compiere 3.3 Community Edition and Openbravo ERP 3.0 Community Edition. We analyzed the similarity of business processes between those systems to formulate our questionnaire.

We distributed this questionnaire by convenience sampling to participants of INACRAFT (International Handicraft Trade Fair) 2012 event that held in the Jakarta on 28-29 May 2012. INACRAFT is the largest gift and craft trade event and held every year in Indonesia. Most of the SMEs that took part in the survey are engaged in manufacturing and retail industries. Respondents involved in the survey of business process analysis consisted of 24 SMEs. SMEs are scattered in various area of Java and Sumatera. Considering this fact, we aim that we get samples that represent the characteristics of Indonesian SMEs. Lastly, we tabulated and analyzed the result of questionnaires and constructed conclusions.

IV. ANALYSIS

A. Identification of Business Processes Standardization for Marketing and Distribution, Procurement and Production Processes

TABLE I.
SAP BEST PRACTICES OF MARKETING, PROCUREMENT AND PRODUCTION PROCESSES

Process	Sub Process
Marketing and Distribution	Pre sales activity (manage data of customer's, material, pricing, inquiry, quotation and communications related with sales activity); generate sales order; inventory checking availability, shipping (pick and pack product; post goods issue that indicates that legal change in ownership of the product); generate customer invoice; customer payment
Procurement	Generate Purchase Requisition (PR), manage Quotation from vendor and Purchase Order (PO); invoice receipt and payment
Production	Production planning (forecast and sales and operation planning); production process (demand management, Master Production Scheduling (MPS), Material Requirement Planning (MRP), generate shop floor documents, goods issue and completion confirmation); order settlement

The recommended best practices which will be referred as an initial comparison basis is the best practice processes from SAP, because of their completeness and detail processes in marketing and distribution, procurement and production process (Table I). Marketing and distribution processes consists of 6 sub processes namely pre sales activity, generate sales order, inventory checking, shipping, generate customer invoice and customer payment. Next, procurement process consists of 5 sub processes namely generate purchase requisition, manage quotation from vendor, manage purchase order, invoice receipt and payment. Lastly, production process consists of 3 processes namely production planning, production process and order settlement. If there is other process that is not covered by SAP best practices and we are captured

in the survey's results, then it will be noted as an additional process.

B. Erp Systems Comparisons

Based on Gartner research in year 2010 and our observation in ERP system criteria selection, it can be concluded that the best proprietary ERP systems are SAP Business One dan Microsoft Dynamics NAV. Due to SMEs' limitations, they tend to choose open source ERP systems which are highly supported by online community and have high interoperability such as Compiere and Openbravo ERP. Those ERP systems are chosen because of their top three rank for the best ERP systems in year 2009 (<http://tech.gaeatimes.com>) and in year 2010 (www.forecastingclouds.com).

SAP Business One application is an integrated business management solution designed specifically for small scale and midsize enterprises which leverages a single application to automate business processes and deliver an

accurate, unified picture of critical, up-to-minute business information across all functional business areas and could be easily integrated with other version of SAP application. Compiere is an open source ERP and CRM business solution for SMEs in distribution, retail, services and manufacturing. Next, Openbravo ERP is a web-based ERP business solution for small and medium sized companies that is released under the Openbravo Public License. Table II summarizes the SAP, Microsoft Dynamics NAV, Compiere and Openbravo modul and also concluded that SAP has implemented the most detail, complete and integrated among processes because of those processes could cover all functions in each ERP systems. Next, Compiere could also be chosen for SMEs which have limited fund for ERP implementation. Based on these thorough observation and analysis, best practice SAP will be used as a base reference to set questionner instrument to the Indonesian SMEs to identify their business processes.

TABLE II.
DESCRIPTION OF SAP BUSINESS ONE, MICROSOFT DYNAMICS NAV, COMPIERE AND OPENBRAVO MODUL

ERP System	Modul
Marketing and Sales Process	
SAP Business One	Pre sales activity (opportunities and pipeline management; contact management and quotation); Generate sales order (maintain order); inventory checking availability (checking inventory); shipping (deliveries); generate customer invoice (maintain invoice); customer payment (posting payment)
Microsoft Dynamics NAV	Pre sales activity (manage customer and sales data; create marketing campaigns; organize service resources; manage contracts and service agreements); inventory checking availability (forecast and track parts consumption)
Compiere	Generate sales order (sales orders); shipping (shipments); generate customer invoice (sales invoices); customer payment
Openbravo	Generate Sales Order (sales order); shipping (good shipment); generate customer invoice (invoice); customer payment
Procurement Process	
SAP Business One	Purchase order; payment (purchase credit notes)
Microsoft Dynamics NAV	Not Available
Compiere	Generate purchase requisition (manage requisition); manage quotation from vendor (manage RFQ); manage purchase order; manage vendor receipt; payment
Openbravo	Purchase requisition; purchase orders; purchase invoice
Production Process	
SAP Business One	Production planning (forecasting); production process (Material Resource Planning); order settlement (reports)
Microsoft Dynamics NAV	Production process (production orders, supply planning, capacity requirements planning)
Compiere	Production process (Material management rules, product setup, price list setup, product transactions, inventory move, move confirmation, physical inventory, internal use inventory, production, ship/receipt confirm, bill of materials explode, attribute set instance)
Openbravo	Not Available

C. Analysis of Indonesian Smes Business Processes

Analyses were performed to identify the number of SMEs that use the similar business processes to support their operational activities. If there are SMEs which are using the similar process above 50 percent then the

process is generally required by SMEs in Indonesia. Table III shows that all SMEs indeed really need marketing and distribution processes as their main process to support their activities. However, due to their limited market segment which most covered only individual customer than they do not need manage inquiry and quotation process. In addition, the procurement process is required by SMEs to be automated and integrated with other

processes. Because the SME has a simple organizational structure and business processes then process of managing purchase requisition is not required. If there is a request from certain department to procure then such department will directly inform to the procurement department to

issue a purchase order which will automatically sent to the relevant vendor. Due to most of SMEs is a manufacturing SME then production process is needed to be implemented in ERP system to support other processes.

TABLE III.
SUMMARY OF MARKETING, PROCUREMENT AND PRODUCTION PROCESSES NEEDED BY INDONESIAN SMES

Process	Sub Process	%
Marketing and Distribution		
Pre-sales Activity	Manage Customer Master Data	75
	Manage Material Master Data	92
	Manage Pricing Master Data	96
	Manage Inquiry	25
	Manage Quotation	25
Sales Order Processing	Manage Sales Order	100
	View Document Flow	100
Manage Inventory	View Inventory Availability	83
Shipping	Manage Shipping	100
	Create Outbound Delivery with Reference to Sales Order	100
	Update Outbound Delivery	100
	Pick Product	100
	Post Goods Issue	100
	View Outbound Delivery	100
	Maintain Billing Due List	100
	View Billing Due List	100
Customer Invoice	Create Invoice	100
	Create Invoice with Reference to Outbound Delivery	100
	Create Invoice with Reference to Sales Order	100
	Update Invoice	100
	View Invoice	100
	View Customer Balance	92
Customer Payment	Manage Financial Accounting	92
	Post Receipt of Customer Payment	96
	View Customer Balance	92
Procurement Process		
Purchase Requisition	Manage Purchase Requisition	4
	Manage Vendor Master Data	100
	Manage Material Master Data	100
	Create Material Master for Trading Goods	96
	Update Material Master for Trading Goods	96
	Manage RFQ	0
Maintain Quotation from Vendors	Maintain Quotation from Vendors	0
	View Price Comparison	0
	Reject Quotation	0
Purchase Order (PO)	Manage PO	100
Invoice Receipt	Manage Invoice Receipt	100
Payment to Vendor	Manage Financial Accounting	92
	Post Payment to Vendor	88
	View Vendor Balance	83
	View G/L Account Balance	83
Production Process		
Production planning	Create consumption values for finished products (forecasting)	88
	Manage bill of material (BOM)	96
	Manage finished product routing	88
	Manage product group	92
	Manage Sales and Operation Plan (SOP)	71
Production process	Transfer SOP to demand management	75
	Run MPS with MRP	100
	Review stock/requirement list	100
	Convert plan order into production order	100
	Review production order status and documents	100
	Confirm production completion	100
	Receipt of goods from production order	100
Order settlement	Review costs assigned to production order	100
	Order settlement	100

V. CONCLUSION AND FUTURE WORKS

In order to gain competitive advantages with other companies, SMEs need to implement ERP system to simplify, integrate and automate their business processes. One of the key success factors in implementing ERP is SMEs need to standardize and formalize their main processes. Based on our analysis, the main business processes which are urgently required by SMEs are marketing and distribution, procurement and production processes. However, most of SMEs are still focusing in standardizing and implementing their marketing and distribution processes due to their strategies in acquiring more customers to enlarge their market areas. Besides focusing in standardizing which can be fit with the best practice, SMEs need to consider other key success factors in implementing ERP systems such as people and technology. For SMEs which choose to buy an ERP packaged system, they could choose SAP Business One or Compiere Community Edition due to their detailed and complete processes. The business requirements that we have defined could be used to customize the chosen ERP system.

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relationship management.

Putu Wuri Handayani, Msc is a lecture in Faculty of Computer Science University of Indonesia. She obtained her master degree from University of Applied Science Fulda, Germany. Her research interest are related to information system/information technology such as e-commerce, enterprise resource planning, supply chain and customer



change management, distributed systems and information retrieval.

Dr. Achmad Nizar Hidayanto is Head of Information Systems/Information Technology Department, Faculty of Computer Science, Universitas Indonesia. He obtained his PhD in Computer Science from Universitas Indonesia. His research interests are related to information systems/information technology, e-learning, information systems security, information extraction/retrieval, and e-learning system.



Dr. Indra Budi is a lecture in Faculty of Computer Science University of Indonesia. He obtained his doctoral degree from University of Indonesia. His research interest are related to information system/information technology, database, information extraction/retrieval, and e-learning system.