

Midmarket Companies Were Addressed at Sapphire 2008 but Were Not the Central Audience

Christian Hestermann, Chris Pang, Peter Wesche, Neil Chandler

SAP restated its commitment to the midmarket with news concerning various offerings. Midmarket companies should evaluate the relevance of SAP's product and service offerings to their business requirements.

Key Findings

- For Business All-in-One, an online configurator and pricing engine, preinstallation templates and sizing through the Fast-Start program are available. All-in-One will play a more important role in SAP's midmarket approach.
- Business ByDesign's go-to-market date has been delayed by 12 to 18 months.
- Of the small or midsize business (SMB) solutions, Business One appeared to have been given less emphasis at Sapphire 2008, but relatively few target customers of this product attend this annual event.

Recommendations

- Midmarket customers that are seeking a preconfigured, industry-specific solution from SAP should analyze the preinstalled versions of All-in-One under the Fast-Start program.
- Companies that are interested in SAP's on-demand product Business ByDesign must adapt their selection and implementation time frames to the delay in the product's realistic availability of more than 12 months.
- Users must ensure that their network connections are stable and offer high availability before considering the use of an on-demand business application.

WHAT YOU NEED TO KNOW

SAP's ongoing commitment to midmarket companies must be noted positively, but it was not addressed in many sessions at the Sapphire event. SAP must consider different ways to make its flagship Sapphire event more relevant to this important customer segment.

EVENT

Event Facts

From 19 May 2008 to 21 May 2008, SAP held its 12th European Sapphire conference in Berlin. More than 7,000 delegates (and more than 2,000 employees and ecosystem partners) from 74 countries attended the event. A dedicated Business Objects user conference was collocated with the main event for the more than 400 Business Objects delegates.

Analysis

Midmarket Messaging and Positioning Appeared Diluted

SAP continues to address midmarket companies as the key segment where the company plans to win most of its new deals. Although the size of SMB deals are vastly different from large enterprise deals, the sheer number of SMBs (see Note 1) in Europe, North America, Asia/Pacific and Latin America means that this demographic cannot be ignored. Gartner estimates that in revenue contributions to the overall ERP market, SMBs represent approximately 36% and 40% of ERP spending in North America and Europe, respectively. For emerging regions, the contribution of SMBs to total ERP spending is even higher.

Gartner estimates that SMBs represented approximately 15% of SAP's global ERP revenue in 2007. In previous announcements, SAP highlighted the importance of the midmarket sector for future growth. However, at Sapphire 2008, the message was mixed, at best. SAP co-CEO Henning Kagermann's keynote address briefly mentioned the importance of the midmarket but transitioned almost immediately into a discussion on SAP's innovations in the business suite and integration scenarios with Business Objects. On Day 2, co-CEO Leo Apotheker mentioned SMBs in an example about collaborative supplier management, but, again, the overall focus remained around large enterprise solutions. Further compounding this mixed messaging was the decision to locate the "SME Village" at the rear of an exhibition hall, where it was almost hidden. This was perhaps unintended, but it meant that delegates interested in the SMB product set had to search for it.

Business Objects Brings 46,000 Midmarket Customers

Business Objects was a prominent feature in the Day 1 keynote address from Henning Kagermann and the Day 2 address from Leo Apotheker. SAP explained how the Business Objects portfolio dovetails and integrates with SAP's business applications to deliver business transformation. This was demonstrated on stage, with Business Objects-centric business intelligence (BI) embedded into SAP portals.

In the media briefing, Kagermann affirmed that Business Objects forms a key strategy to deliver revenue growth to the group more than the double-digit growth gained so far. Moreover, SAP highlighted its strategy to tap the midmarket. According to SAP, more than 70% of its customers are midmarket, but there is not yet a consolidated SAP/Business Objects strategy for SMBs.

A big challenge for SAP/Business Objects is to avoid becoming fixated on the integration issue and to add value to the heterogeneous BI customer that doesn't want or need an SAP infrastructure. This poses a challenge to not lose its momentum, especially on the back of the 3.0 release and following announcements on the planned rationalization of the product portfolio. For example, SAP offers two SMB solutions, SAP Business All-in-One and SAP Business One. However, the Business Objects midmarket solutions — Crystal Reports Server and Business Objects Edge — integrate only with SAP Business Suite and All-in-One. There is little or no integration with Business One, and although teams are working on integration, no delivery date has been announced. Likewise, there is less integration in the software-as-a-service space, where SAP offers Business ByDesign, and Business Objects offers CrystalReports.com, although the teams are working on this.

Business ByDesign "Deaccelerated"

Shortly before Sapphire 2008, SAP announced the delayed rollout of Business ByDesign by 12 to 18 months. The announced savings of more than \$100 million mainly will affect the go to market and the recruitment and training of new partners. Also, the solution initially will be made available only in Germany, the U.S., France, the U.K., India and China. According to SAP, these countries deliver 70% of the projected market volume. Additional countries will not be served before 2009. This poses a limitation to upper-midmarket clients operating in Southern and Eastern Europe, Latin America, South America and Asia/Pacific.

According to SAP, the savings will not affect product development. In sessions with SAP's management, Gartner identified and discussed four areas of future development on Business ByDesign:

- *Business functionality:* Each Feature Pack 1.1 (available today) and 2.0 (planned for early 2009) contains at least 30% additional functionality. Although this shows that SAP is continuing to invest in the product, it also shows that the product still has significant functional gaps that must be closed (see "SAP Business ByDesign Offers Broad Functionality, but Depth and Integration Need Improvement"). Areas that need improvement include manufacturing and business network functions (for example, electronic data interchange [EDI] and Web EDI), but also project management and project costing for professional services companies. SAP's management claims that the findings obtained from initial customers indicate that midmarket companies can be as complex as large enterprises in some requirements. One early adopting customer Gartner spoke with postponed its go-live with the solution until its functional requirements were fulfilled. Therefore, clients must diligently analyze the product capabilities and must not believe all the positive marketing messages. Instead, customers should carefully check their specific process needs to avoid selection errors (see "Midmarket Companies Should Clarify Requirements for Process and Information Support to Avoid ERP Selection Errors").
- *User interface (UI):* The role-tailored UI has been enhanced, but its look and feel are still lagging behind the UIs recently shown by vendors such as Microsoft, IFS and Lawson. The UI topic isn't just about a "nice and clean" look and feel; it also has a significant impact on users' acceptance and productivity. Additionally, SAP's UI shows a lack of adoption of the new paradigms of user-centric ERP, which must support additional types of users through a variety of means (see "Modernizing ERP: How to Make Users Fall in Love With ERP All Over Again").
- *Product performance and stability:* The customers that Gartner spoke with still complained about longer-than-acceptable response times. Accordingly, this was a main focus area in Feature Pack 1.2, which will be available soon. With a heavily distributed

architecture and the influence of the network's performance on an on-demand product, the exact reasons are hard to identify and can't always be ascribed to the product. However, Business ByDesign does not offer a graceful failover mechanism: When the connection to the system is lost, the work that has been done in the business activity is lost, and the user must do it all over again. This is a common problem with transactional systems, where the integrity of all business objects must be ensured before the transaction can be closed and its results stored. However, clients are used to productivity tools where data loss is not a problem because of automatic-save actions that are being executed permanently in the background. On-demand products rely on a stable and highly available network connection, and, especially in regions where the stability of the network is poor, this lack of automatic failover poses severe problems for the usability of the system.

- *Internal total cost of ownership (TCO) for SAP:* SAP stated that the main reason for the delayed rollout is that the "megatenant" architecture results in high internal efforts and costs for the initial setup and the ongoing maintenance and upgrade of the system. According to SAP, each customer's system runs in an isolated fashion on a separate hardware instance, without sharing code or database instances. To reach SAP's target of a high-volume business, with thousands of clients served in an efficient way, this must be fixed. The fact that these problems occur rather late in the product development cycle, when the system already is being used by early adopters, may indicate that the problems are being caused by suboptimal underlying infrastructure and support practices. This would also explain why entry into the prospected high-volume deployment of the solution must be postponed by more than one year.

Postponing the entry of Business ByDesign into high-volume business means a lack of approximately \$1 billion in revenue. According to SAP, this must be compensated by other activities. SAP mentioned delivering more functionality to customers using the new side-by-side features as one possible source (see "SAP Builds on Its SOA ERP Strategy at Sapphire"). However, this raises three concerns:

- First, the reason for developing the new Business ByDesign solution was to enter what SAP called "untapped markets." It must be doubted whether the established customer base would generate as much revenue for SAP as a completely new market.
- Second, with a bigger focus on side-by-side functionality development that also could be used by large enterprises, there is a risk that the new functionality will be too complex to be consumable by midmarket companies.
- Third, because established partners will focus more on their traditional business and will exploit the new offerings around All-in-One (see above), the necessary turnaround and change of mind-set that SAP officials described as a necessary precondition for success in the midmarket and in the recruitment and enabling of new partners might be delayed for longer than the 12 to 18 months that SAP needs to finish the product.

New Procurement Options and Definition of Scope for SAP Business All-in-One

As of December 2007, SAP claims that it has increased the number of All-in-One customers to 11,350. SAP has continued to evolve the packaging of the All-in-One product, which basically provides a preconfigured industry version of the business suite to midsize businesses.

When looking closely at the procurement of SMB solutions, midsize businesses desire broad functionality but can't afford to implement the solution based on an unclear scope or cost framework. In the past, SAP tried to address the issue with its ecosystem and local partners using

a customized approach by region and industry. Risk management was mainly on the customer's side and had a great deal to do with trust and word of mouth.

For SAP All-in-One, SAP has advanced to provide configuration tools that enable an SMB to get a first quote for the customized solution scope (see Note 2). The show floor in the SMB area focused on this new answer to the ongoing request for more-reliable preplanning of the overall solution implementation cost: By entering the industry, number of employees and number of users, prospects can get a quick cost estimate, as well as a list of the generic functions needed. By tying this tool to effective hardware resources and an optimized use of SAP All-in-One templates, prospects can receive a first quote with minimal effort, if the solution requirements are available.

Although this tool is efficient in providing a detailed quote, customers should use it with care. In particular, the calculated estimates may need corrections after going into the details. For example, the user counts and function scopes for a warehouse management solution for a transportation company with 150 employees change from \$476,000 in total cost (software, servers and implementation) to \$495,000 (a 4% increase) simply by adding the handling of consignments and internal stock transfers. The tool can be used to simulate solution phases and scenarios, and to clarify preferred implementation phases.

Even if this first estimate may need to be adjusted, the pure calculation could pave the way for further discussions and may remove the fear of running into unpredictable implementation efforts. The mere existence of this first estimate will put factual pressure on SAP and service providers to work with the initial quote and to properly argue for any uplifts and corresponding added value. If user organizations want to estimate a comprehensive TCO, then the internal efforts and educational effects must be added, along with the true solution interfacing, which might cause additional third-party efforts. Data migration work typically is not included.

Finally, procurement departments must evaluate the respective responsibilities of the participating parties (SAP, hosting and service providers) to compare the Fast-Start procurement option with the SMB offerings in SAP's ecosystem. Even if the Fast-Start option does not seem to be your way of decision making, the nature of fixed-bid-type quotes provided by the configuration tool might be an interesting benchmark for ongoing contract negotiations.

No Significant Announcements for Business One

Business One is aimed toward the small end of the SMB market. Among SAP's SMB offerings, Business One was given the least emphasis, with only a brief mention in the keynote addresses and no major announcements or news about the product. This was surprising, given the high concentration of SMBs in Europe and given SAP's claim of a 37% increase in customers (to 17,780) for the product in 2007.

Conclusion

SAP's ongoing commitment to midmarket companies must be noted as positive overall, but SAP still has much to do to become as successful in this market segment, as previously announced. A large global event like Sapphire may not be the optimal forum to address the SMB segment, and different formats and more-local events may be more helpful. Even so, SAP must seek new ways to make its flagship event more relevant to this important customer segment.

RECOMMENDED READING

"Sapphire Conference Highlights Innovation Around a Stable Core"

"SAP Builds on Its SOA ERP Strategy at Sapphire"

"Midmarket Companies Should Clarify Requirements for Process and Information Support to Avoid ERP Selection Errors"

"SAP Business ByDesign Offers Broad Functionality, but Depth and Integration Need Improvement"

"SAP Business ByDesign Offers an Innovative but Unproven Approach"

Note 1
SMB Definition

Definitions for SMBs vary widely. For the purposes of this research, we used the following list of company sizes (see Table 1).

Table 1. Company Sizes

Type	No. of Employees	Annual Revenue
Small Business	20 to 99	Up to \$49.9 million
Lower Midmarket	100 to 499	\$50 million to \$249.9 million
Upper Midmarket	500 to 999	\$50 million to \$249.9 million
Small Enterprise	1,000 to 2,499	\$250 million to \$999.9 million
Midsize Enterprise	2,500 to 4,999	\$1.0 billion to \$2.49.9 billion
Large Enterprise	5,000 or more	Greater than \$2.5 billion

Source: Gartner Dataquest (April 2007)

We used the breakdown of employees and/or annual revenue as guidelines for buyer-side organizations. Our definition of SMB encompasses companies with up to 999 employees and/or companies with an annual revenue of up to \$249.9 million.

Note 2
Web Site of SAP All-in-One Configurator

For more information on SAP's Fast-Start solutions configurator, see [SAP Business All-in-One Fast-Start Program](#).

REGIONAL HEADQUARTERS

Corporate Headquarters

56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters

Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters

Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters

Gartner do Brazil
Av. das Nações Unidas, 12551
9º andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509