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## SAP Aims for SME

*SAP has been acquiring, developing and expanding its portfolio of solutions for SMEs (small and medium enterprises) for almost a decade. [SAP Business One](#), [SAP All-in-One](#) and [SAP Business Objects](#) have all contributed to SAP's tripling its SME base in the last three years. However, the company's initial launch of [SAP Business ByDesign](#) was flawed. SAP must ensure that its upcoming launch of the next version of By Design in mid-2010 is flawless to capture the SME market's increasing appetite for SaaS and cloud-based business solution alternatives.*

I dialed into SAP's SME (small and medium enterprises) Global Business Update Call last week, where Jeff Stiles, SVP, SME, Volume & Ecosystem Marketing, provided analysts a recap of recent SAP SME highlights, and shared strategic directions for 2010. I've been following SAP in the SME market since it acquired TopManage (which later become SAP Business One) in 2002, so I'm always interested in checking their progress. Here's what I heard and what I took away from the discussion—with the most interesting stuff saved for the end.

- **SME is critical to SAP's future growth:** As part of recent restructuring changes, the company [named Peter Lorenz](#), Executive vice president of Small and Midsize Enterprises (SME), as a Corporate Officer, elevating SME attention at the corporate level. Though SAP has been investing in SME solutions, marketing and sales for several years, this appointment indicates that SAP is redoubling its efforts to crack the SME code. SAP also [recently hired Kevin Gilroy](#)—who spent 24 years at HP, most recently as senior VP of HP's worldwide small and medium business segment—as vice president for channel and business development for SAP's small and midsize business organization in North America. SAP is also making substantial product, channel and marketing investments in SAP Business One and SAP Business by Design—both of which are geared to smaller companies—as well as to SAP Business All-In-One, which is designed for the mid-market. As noted in the next bullet, however, SAP's SME definition, solutions and pricing still skew towards larger SMEs, so the question remains, how low will SAP be able to go in the broader small business market?
- **SAP is growing its SME market footprint:** Jeff shared a number of impressive stats, such as the fact that more than 77% of SAP's 95,000 customers are SMEs, and that this percentage is

growing. However, SAP defines the SME market as companies with \$500 million in annual revenues or less, which gets into some pretty big businesses. For instance, the U.S. Small Business Administration (SBA), has established [two widely used size standards](#)—500 employees for most manufacturing and mining industries, and \$7 million in average annual receipts for most non-manufacturing industries. Nevertheless, SAP has tripled its SME base (using its SME definition) in last 3 years (with about 30% coming from the Business Objects acquisition). The vendor indicates that it is garnering 35 new SME customers per working day, and that it is enjoying good growth among small businesses and in the lower end of the medium business market.

- **SAP is investing in channels to enable SME growth:** The direct, feet-on-the street sales model that has served SAP so well in the large enterprise space doesn't scale to the economies needed in SME. In addition to hiring Kevin Gilroy, SAP is recruiting and enabling more SME channel partners and developing and expanding direct inside sales to do the job. Channel partners now account for more than 50% of SAP's SME revenues, inside sales accounts for 20% of the business, and 30% derive from SAP's direct outside sales team. SAP has struggled with building effective SME channels for a long time. But, it looks like it is making some good gains here. It is investing in "virtual agency" marketing services to help its 6,000 partners create their own targeted campaigns, and in SAP Marketing University to teach partners about marketing. Inside sales will be increasingly critical for SAP in SME— especially as it prepares for launch of the next version of Business by Design later this year.
- **Business One gets a facelift and Business All-in-One gets a refresh:** Release of Business One 8.8, slated for Q2 2010, features a new UI with Web 2.0 capabilities for a better user experience, and cloud integration for partner applications. Behind the scenes, SAP has consolidated three individual lines of Business One code into one—making the economics much more attractive. SAP has also created packaged integration scenarios for subsidiaries of big companies, making it easier for them to integrate with their corporate HQ SAP systems; remote monitoring; and embedded, packaged analytics. Meanwhile, Business All-in-One gets a refresh, with SAP extending the Fast Start (fixed scope, fixed fee) program with partner hosting offerings in 20 countries—another indicator that more companies just don't want to or can't run all of this themselves. SAP also said that its [online solution configurator](#) is helping to reduce the cost of sales, and that it will introduce a new supply chain relationship management module into the Business All-in-One offering.
- **Business Objects has been a boon:** With 57% year-over-year growth, Business Objects has seen good traction with both SAP ERP customers (it tripled BI revenues with SAP ERP clients in Q1 through Q4 of this year) and non-SAP customers. SAP also intends to use Business Objects as a wedge opportunity, to get in the door and eventually replace older legacy systems with SAP ERP. The company recently announced a free personal use version of [BI On Demand](#), which should boost interest among the vast majority of SMBs that don't yet use any BI solution.

And now to what I found most interesting—**Business by Design, Chapter 2**. What a long strange trip this has been. After launching ByDesign to much fanfare in 2007, things quickly fizzled. Going against conventional wisdom (and economics) SAP built its debut SaaS offering on a single tenant model instead of a multi-tenant architecture. We all know what that means—lots of red ink because single tenancy doesn't afford the economies of scale and skill that multi-tenancy provides. Anyway, since then SAP has limited ByDesign to about 100 charter clients, who are getting a lot of tender loving care. Feature Pack (FP) 2.5, slated for H2 2010 will sport multi-tenancy, making it economically feasible for SAP to sell, provision, maintain and support it in a broader market. SAP will continue to offer a single tenancy option alongside the multi-tenant offering (both on the same code base).

Since this is ByDesign's first multi-tenant varietal, SAP isn't quite sure what the sweet spot will be but will stick with a 25-user minimum. From my perspective, this still seems a bit high for getting at much of the SMB market. By SAP's own calculations, about 10% of client companies' workers currently use ERP. Although this percentage may grow, right now this puts ByDesign at 250 employees and up (whereas the vast majority of SMBs have fewer than 100 employees). Another challenge SAP faces is around routes to market. Few SaaS vendors have established successful channel programs with traditional IT VARs, many of whom have been skittish about the model. As I mentioned above, SAP will need to fire up the inside sales model for ByDesign, and create a lot of pull with marketing campaigns (enter the 100 ByDesign reference customers).

Another interesting note: SAP is incorporating Microsoft Silverlight to make it easier to make changes to the ByDesign UI, create mashups and integrate with Microsoft Office applications and features. SAP will also release an SDK for developers based on Microsoft Visual Studio.NET, hoping that all those developers will be enticed to build add-ons and industry-specific extensions for ByDesign. And yes, there will be a store for that—SAP intends to build an app store down the road.

I don't know if I'm reading too much into the tea leaves, but I'm a bit intrigued by SAP's growing relationship with Microsoft for ByDesign. Since Microsoft Dynamics has yet to offer a true SaaS ERP solution, it just makes me wonder if there's something up with that. Related to this, Microsoft recently forfeited its small business accounting play to Intuit, and soon after, inked a deal with Intuit to integrate its cloud-based Partner Platform with Microsoft Windows Azure—which looks to be a mutually beneficial relationship. Could SAP and Microsoft be hatching some similar type of joint effort in this space, aimed at the mid-market?

As ByDesign FP 2.5 comes fully online, SAP will probably spend more time than it would like in positioning ByDesign against both Business One and Business All-in-One. Though the on-site vs. cloud angle is clear, there is lots of market overlap. SAP will need to proactively guide both customers and

partners to the right solution in terms of total cost, ease of use, functionality, ROI timeframes, etc. so it doesn't waste time and energy competing against itself—or having its partners compete against themselves or its inside sales team. It will also be interesting to see if ByDesign can replicate the experience of its 100 charter customers to a broader base, as it will be difficult to broadly supply the same level of attention that these early customers enjoyed.

But clearly, the vendor must make ByDesign work to capture the SME market's increasing appetite for SaaS and cloud alternatives—yes, even in the ERP space, as evidenced by NetSuite and Intacct. SAP's recent investments, Peter Lorenz' new chair at SAP's corporate table, and Kevin Gilroy's appointment to steer North American channel and business development indicate that this time, the vendor intends to go much further to make sure that its cloud and SME formulas work.



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