

SAP INDIA CONTINUES ITS GROWTH STORY

Key Insights Gained from SAP India Summit'08

INTRODUCTION

This Springboard Research document presents observations and analyses gained from the SAP India Summit in Mumbai, India, held June 4-6, 2008. The basis for the insights expressed within this document – beyond Springboard's continuous tracking of SAP's business activities – includes information obtained from senior SAP executives during the Summit.

KEY OBSERVATIONS

SAP India's growth story spans all verticals and solution segments. Over the past year, SAP won some major business deals in industries such as utilities, banking, financial services and insurance (BFSI), automotive, and retail.

Indeed, India has become the fastest growing region for SAP with over 100% growth in terms of both software license revenues and customer acquisitions over the last year. In the first quarter of 2008, SAP India registered an impressive 67% growth in software license revenue. SAP India also continues to gain ground in the SMB space, registering revenue growth of 43%, while consulting services and education revenues grew by 34%, and 100%, respectively.

Galvanized by its India growth story, SAP is looking at the country as a center of innovation for its clients. According to SAP, its real interest in India is to find the next-generation practice, the innovative idea, the one thing that could change the global business scenario. In short, SAP plans to use India as an incubation engine of innovation for their entire company.

As such, SAP India, through its SAP Ventures arm, announced its intention to invest around US\$30 million to nurture innovation in corporate India and help Indian entrepreneurs build fast growing companies with a global footprint. SAP Ventures has a

long history in countries like the U.S., and Europe, and now shifts its eye to investment in India, thanks to the country's phenomenal growth, and abundant talent pool.

Additional SAP India market developments are included below:

- **SAP Continues Growth Momentum in SMB/SME Space:** Beating inflationary trends and global economic meltdown, India is witnessing impressive growth in the small and medium enterprises segment. SAP registered 43% growth in the first quarter of 2008, and has now emerged as a leading player in this space, with significant customer wins. During this period, SAP won 1,500 new customers, and its total customer base now stands at 2,300.
- **SAP Announces BusinessByDesign in India:** SAP launched its on-demand business software, SAP BusinessByDesign, exclusively to mid-market companies with 100 to 500 employees. SAP is aiming its software at these companies because a majority of them don't have the IT staff and resources to deploy a full scale ERP solution in-house. SAP will rely on its partner ecosystem to drive BusinessByDesign adoption in India.
- **SAP is Expanding its Partner Program:** SAP has rolled out its SAP PartnerEdge program to all SAP solution providers and service partners in India. The program was earlier only available to SAP channel partners. This move is expected to provide enhanced infrastructure and business-enabling support to its partner community. The program is an investment, and reflects SAP's continued focus on building its partner ecosystem.
- **SAP to Focus on Building Consultant Base in India:** According to estimates, there is a current skill shortage of around 60,000 SAP consultants in India. As a result, SAP is now concentrating on developing its training program. According to SAP, the majority of SAP consultants will come from India, especially from tier II and III cities, as potential opportunities in those areas are huge.
- **SAP Forges Partnership with KPIT Cummins to Focus on Automotive Industry:** SAP India entered into a joint go-to-market partnership with technology solutions provider KPIT Cummins Infosystems. This partnership is aimed at combining KPIT Cummins' expertise in automotive and industrial machinery verticals with SAP's enterprise software platform, to eventually benefit customers. SAP India will tap into KPIT's strengths in business intelligence (business objects platform) and governance risk and compliance to leverage the aggressive growth of these solutions. Through this partnership, SAP hopes to deliver equitable value to its customers in the automotive space.

SPRINGBOARD ANALYSIS

Springboard Research believes that SAP's focus on the SMB and SME space has paid rich dividends, which is obvious from the impressive number of recent customer acquisitions in this space. According to Springboard Research, the launch of BusinessByDesign to the SMB space is the right strategy. This move will certainly strengthen SAP's hold on this base of customers. And while SAP is a relative newcomer in the on-demand space, it will face competition from existing players like Microsoft and Oracle, who are also pushing for a foothold in this space.

Springboard Research considers the BusinessByDesign price point of US\$149 per user, per month, as not viable for SAP's target market. However, SAP has positioned this pricing as tentative, and will revise it when they make a more aggressive bid for the on-demand market in India. SAP is also currently focusing on fine-tuning its go-to-market strategy and finding the right partners, and at this point has released BusinessByDesign to a few select customers for their feedback. The product's formal launch will incorporate this customer input.

Springboard Research feels that SAP's efforts at building a sound ecosystem is a valid strategy that will determine its ability to penetrate the on-demand space. Although the company is reluctant to compete on pricing and focuses its value proposition as an on-demand solutions provider, we believe that, in view of the realities of the India market, SAP will need to strike a balance between its value proposition and price points.

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