

Run Marketing as a Business: The Transformation of SAP Marketing (Part I)

By MATTHEW QUINT

Abstract

By the end of the first decade of the new millennium, considerable changes were taking place in the global business environment with two primary pressure points: an economic crisis, which drove the need for increased innovation and efficiency; and the growth of disruptive technologies, including unprecedented mobile and social connectivity, which created an explosion of data and new consumer behaviors that businesses must manage.

As 2010 approached, these changes were significantly impacting SAP, the world's largest enterprise resource planning provider, which supplied the information technology systems that would be crucial for all businesses to adapt to this new environment. The company and its brand and marketing strategies would need to find new ways to adjust to these shifts.

Introduction

By the end of the first decade of the new millennium, considerable changes were taking place in the global business environment with two primary pressure points: an economic crisis, which drove the need for increased innovation and efficiency; and the growth of disruptive technologies, including unprecedented mobile and social connectivity, which created an explosion of data and new consumer behaviors that businesses must manage.

As 2010 approached, these changes were significantly impacting SAP, the world's largest enterprise resource planning (ERP) provider,ⁱ [See Appendix A] which supplied the very information technology (IT) systems that would be crucial for all businesses to adapt to this new environment. SAP and SAP Marketing were aware that these shifts increased the power of the consumer and stimulated the growth of disruptive new businesses and business models. Leading global companies, especially those in the IT arena which both enable and struggle with this disruption, would need to adapt quickly and demonstrate their ability to understand and support the needs of their stakeholders under these new market conditions.

Financial Crisis

Practically every multinational enterprise was impacted by the financial crisis, commonly marked as starting on September 15, 2008, the day that Lehmann Brothers announced its bankruptcy. For SAP, the downturn stalled out a year that was predicted to deliver stellar year-on-year revenue growth.

After a decade free of financial struggles, SAP was about to spend 18 months watching its revenue and profit fall. The company's net income fell 2% in 2008ⁱⁱ and then fell another 4% in 2009.ⁱⁱⁱ [See Appendix B] In the midst of the crisis, SAP's then-CEO Leo Apotheker announced that the company would lay off 3,000 employees—a first for the company since its founding in 1972.^{iv} SAP was not alone. Two of its main competitors in the enterprise software space, Oracle and Microsoft, had announced revenue losses and layoffs as well.^v Still, SAP's 8% drop in total revenue at the end of 2009^{vi} required the entire company to take a hard look at its future planning.

Some of these struggles would only be near-term, as companies around the world made immediate cost-cutting decisions and delayed any major commitments to purchase new software. SAP's customers were instead relying on upgrades and maintenance of existing software and applications. The global research firm Forrester

estimated that global IT spending would drop by 6.1% in 2009 compared to an average annual growth rate of 7% in the five years leading up to the crisis.^{vii}

But SAP did expect some long-term implications. Its leadership teams noticed a corporate attitude change developing around the process of making IT purchase decisions. Moving beyond a mere assessment of whether an IT product or service would meet a technical need, companies began to review how IT purchases would provide a return on investment. This created new expectations for SAP, and its competitors, requiring constant adjustments in marketing and sales communications to demonstrate how IT would deliver ROI.

Competition from SaaS

In the midst of this gloomy financial climate, Software-as-a-Service (SaaS) gained even more attention as a viable IT alternative to the (ERP) solutions that were at the core of SAP's offerings. SaaS operates by remotely hosting software, and its associated client data, on cloud computing server centers. In contrast to the ERP model, which requires significant upfront investment, the SaaS

model is typically more affordable and more flexible as it spreads out costs via a subscription fee-for-service model. Thus, attention to SaaS grew during a period when cost-cutting was on the rise.

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SaaS revenue would double its market levels by 2015 to approximately \$22.1 billion.^{viii} Suddenly ERP giants like SAP and Oracle had to face the prospect of growing competition from a disruptive technology once thought to be a niche movement. Vendors such as Workday and Salesforce started to steal more and more market share in small-medium-business segments (SMB), a high-priority target for both SAP and Oracle. Large global organizations, traditionally the most reliable consumers of on-site ERP, were beginning to give SaaS a hard look as well. Beyond new start-up SaaS entrants, other large-scale, non-traditional competitors such as Google began to enter adjacent markets, such as business applications, providing apps for cloud-based business intelligence that were low-cost or even free of charge.

The Changing Customer

Because of their up-front costs, ERP purchase decisions were traditionally made by Fortune 500 chief information officers, in concert with approval from their CEO and CFO. As Costanza Tedesco, SVP of Marketing

Communications at SAP, stated, “For most of our history we only had to develop really strong relationships with the one or two key influencers at these large global companies.”^{xix} This was beginning to shift.

One change was already in full swing: the increased diversity of SAP’s customer base, which now included more and more medium-sized businesses. The challenge for SAP was to fully understand these new customers and their different experiences, needs, and expectations—not only of the product, but also the marketing, sales, and customer experience process. With the predicted growth of competition from SaaS providers, and other emerging technology needs, correctly adapting both SAP’s offerings and its communications would be crucial.

Simultaneously, companies of all sizes were beginning to decentralize the IT buying process, driven in part by the lower price points, modularity, and publicity surrounding SaaS. This alternate IT model stimulated a new mindset within companies. Rather than dictating IT purchases from the top, companies gave purchasing authority to line-of-business (LoB) units. Individual departments could now look for technical solutions precisely suited to their particular business needs.^x In less than a decade, SAP’s buying audience transformed from 1,000 influential business leaders to tens or hundreds of thousands of decision-makers.

With this decentralization, more of SAP’s customers were also direct users of its products, and the explosion of consumer-oriented technology products and services drove new expectations of the user experience. As Spencer Osborn, worldwide managing director of global brand management at Ogilvy notes, “There is an increasing trend of ‘prosumer’ purchasing behavior in the business IT sector. Google, Apple, and others brought simplicity to the IT interface and professionals now expect the same for business software.”^{xi}

These consumer IT companies also drove an “always available on the go” work experience. The “CrackBerry” phenomenon kicked things off with e-mail, and as the 2000s moved on, the sales explosion of iPhone, iPad, and Android mobile devices created the expectation that business software and data should be accessible anywhere.

The business IT sector was also subject to the same changes every business faced from the massive expansion of information available via the internet. By the time

a prospect spoke to an SAP marketing or sales rep, he or she was much more highly informed than ever before. Research by the Marketing Leadership Council found that the average decision-maker making a B2B purchase had viewed 10 sources of information prior to purchase.^{xii} A report from SiriusDecisions found that the average IT purchaser now engaged with a vendor’s sales team after they felt at least half-way through their purchase decision.^{xiii}

All this meant that the SAP brand was being shaped by new forces. Jonathan Becher, SAP’s current chief marketing officer, reflected back on these changes, “By this time, we had become very good at controlling our message, but with constant information and the ability of consumers to easily connect and share information with each other, we were facing new challenges. More and more channels now needed to be managed to create a synchronized brand and communications experience. Controlling gave way to orchestrating.”^{xiv}

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SAP Expands Beyond ERP

Cognizant of these consumer changes, SAP started planning new product offerings to support the needs of both its Fortune 500 CIOs and its growing base of small and mid-sized businesses. SAP knew it could not just stick with its ERP success if it wanted to continue to be a leader in the IT category.

In the mid-2000s SAP began to expand its IT offerings to meet new business expectations for the coming decades in the areas of business intelligence, analytics, cloud computing, and mobile integration.

For more than 30 years, SAP had grown successfully by developing and adapting its product and service offerings from within. These new customer needs forced SAP to look beyond its own R&D, and the company finally committed to using acquisitions to grow into new IT categories. The purchase of Pilot Systems, a business intelligence company, was completed in 2007 (and brought Becher, Pilot’s CEO, into the SAP workforce). This was quickly followed by another large acquisition in this area that made a splash with the press: the purchase of Business Objects in 2008. This purchase solidified SAP’s commitment to play a role in the business intelligence, analytics, and performance management market. Largely through acquisition, SAP quickly became the market leader in this category.^{xv} In 2009, Forrester Research also ranked SAP as providing the strongest current

offering in an assessment of “business performance solutions” providers – combining business intelligence, ERP, and applications components.^{xvi}

Competition helped stimulate SAP to take this path. Its chief rival, Oracle, spent around \$42 billion to purchase more than 60 smaller IT companies between 2005 and 2010.^{xvii} During this time the rivalry was rather public as well, with SAP and Oracle each jabbing at the other in public fora and claiming to be the more innovative, more open, or more strategic company. Despite SAP’s stronger year-on-year growth in brand value during this period, Oracle’s acquisitions helped it maintain an overall lead in brand value during this period.^{xviii}

With SAP expanding its offerings, Becher summed up a concern that was building within SAP’s leadership, “SAP had become an enviable brand; ranked highly in all the major valuations. In addition, people associated SAP with words like ‘strong,’ ‘dependable,’ and ‘reliable.’ But we knew we had challenges ahead, because the brand is still best known for something that was becoming a much smaller part of our business. People who are familiar with SAP still think of us as a big German ERP company, but enterprise planning software now represents only about one-third of SAP’s total revenue, and Germany roughly 30% of our employee-base.”^{xix}

Struggles for the SAP Brand

In the midst of these market, economic, and expansion scenarios, the SAP brand was also hitting a plateau. Beginning in 2000, SAP worked diligently to create and nurture a unified brand, reflected externally by an ad campaign and marketing communications initiatives around a tagline and theme—“The Best Businesses Run SAP.”^{xx} During 2008-2009, however, SAP’s position in Interbrand’s Best Global Brands ranking dipped slightly, and overall its growth had flattened out after what had been year-on-year growth for nearly a decade. [See Appendix C]

One element contributing to SAP’s brand struggles during this period was self-inflicted. In addition to its ERP software application sales, SAP also generates significant revenue from the support services it provides to its customers. In 2009, without surveying its user groups, seeking early feedback from its top customers, or finding advocates who understood and approved the deci-

sion, SAP announced that it would gradually switch all of its ERP customers over to a higher-priced, and more robust, Enterprise Support service. This announcement came as a surprise to many customers, and they vented their frustration. By January 2010, SAP adjusted its approach based on this market feedback and continued to offer a Standard Support option.^{xxi} Even though most companies ended up sticking with the Enterprise Support, damage to the overall SAP brand experience had been done.

Additionally, in 2009 SAP Marketing adapted its global advertising and communications campaigns. The new campaign aimed to find a message that merged the value of SAP’s expanding IT capabilities (which give companies the power to comb data across their organization to uncover and act on insights) with important current trends for running successful business (transparency, visibility, and agility). Working with its long-time partner Ogilvy, the team landed on a concept that SAP could help businesses deliver “clarity” and succeed in a “clear new world.” While the “Best Run Businesses Run SAP” tagline remained, the campaign shifted SAP’s leading message into, ironically, a less clearly defined business value. The question ahead was whether the idea of “clarity in business” would resonate among SAP’s current and potential customers, with its attempt to make a connection between IT purchases and transparency, visibility and agility.

A Change at the Top

Spurred by these business and consumer challenges, and the perception that the company was in the midst of some turmoil, SAP’s Board decided not to renew Leo Apotheker’s CEO contract at the end of 2009. He officially announced his resignation in February 2010.^{xxii} SAP’s Board brought in two of its own, Jim Hagemann Snabe and Bill McDermott, to take over as co-CEO’s of the company, a dual top-management structure which SAP had implemented many times in its history.

While SAP, and technology researcher companies like Gartner, were already forecasting a return to revenue and margin growth in 2010^{xxiii}, SAP’s founder and Board Chairman, Hasso Plattner, noted to *Der Spiegel*, “There is a lack of trust between the management and the

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employees of SAP, particularly in Germany, but also in Europe -- and I couldn't see how to close that gap. Although I did my absolute best to help Leo Apotheker, employee surveys showed that management was unable to make up for this dramatic loss of confidence."^{xxiv}

This was also reflected by The Financial Times, "When the management couple took over from Léo Apotheker in February 2010, the company was in bad shape. Customers were baying over high management fees and product delays, employees were bewildered by job losses and perceived management aloofness, and investors had lost faith because of a slowdown in business momentum."^{xxv}



Transforming SAP for the Future – The Bill & Jim Vision

In light of the conditions described – an economic downturn, the changing consumer base and purchasing process, and the outdated brand perceptions of SAP – Bill and Jim began their co-CEO stint with new mandates and new strategic missions for the company.

In terms of overall brand perception, they wanted their staff to tackle two key areas. First of all, the pair wanted SAP to alter its “big German ERP” image and become known as an innovative company delivering IT products and services for the new business age. Encouraged by SAP’s success with its initial M&A efforts and its expanded offerings, Bill and Jim planned to continue these product developments and fully expand SAP’s offerings into five major IT categories: applications, analytics, mobile, database technologies, and cloud computing. Bill and Jim wanted SAP to be a leading force in all of these critical areas that were demanded in the new business environment.

In addition to boosting SAP’s reputation as an innovator, Bill and Jim also wanted SAP to become a more customer-centric brand. The company’s extremely successful and authentic brand positioning built by its “The Best Run Businesses Run SAP”^{xxvi} campaign drove an image of SAP as a leader in the world of business. This was good. But Becher noted, “The associations we built between SAP and leading businesses like Burger King, Porsche, and Unilever, were a wonderful boost for the

company. But, those associations also meant that SAP felt like an aspirational brand to many people, despite the fact that we were rapidly expanding our customer base and offering modular IT solutions at a range of price points.”^{xxvii}

Despite building a strong brand image, SAP’s direct communications with its customers tended to be features- and functions-focused, talking about SAP’s solutions primarily in a technical fashion. Given the changing consumer mindset and expectations, Bill and Jim knew that SAP must adjust this and create messages that focus on how SAP can help a company, and even its individual users, achieve their business goals, whatever those goals may be.

To make sure there was something concrete to work towards, Bill and Jim set up several specific goals for the company to meet by 2015. They wanted to generate total revenue of 20 billion euros (nearly doubling its 2009 revenue of 10.7 billion euros), create a 35% operating margin, and have SAP software and services reach 1 billion people. They believed that these goals were lofty, but achievable, given the company’s expanded product portfolio, SAP’s history of working with a vast array of technology partners, and the knowledge that IT services were expanding into every aspect of a person’s life.

Finally, the pair knew that a crucial element to achieve this transformation would be building an internal “all in” approach among SAP’s employees who were feeling shaken by the changes of top management, the recent layoffs, and the challenges of dealing on a day-to-day

basis with the changing economies and changing portfolio of the company.

The Role of SAP Marketing

SAP Marketing knew that for SAP to deliver on Snabe and McDermott's vision, their department would need to play a major role. The team was proud of the brand position it created for SAP a decade ago and watched it withstand the test of time. Given this strong brand core, the team was confident that it could authentically demonstrate SAP's commitment to develop a more customer-centric approach and the company's increasing suite of IT solutions designed to meet the new needs of business.

The challenge the marketing team faced was exactly what to do and where to begin.

Questions

1. What can SAP Marketing do to demonstrate its commitment to efficiency, accountability, and delivering ROI, which senior leadership now expects in tighter economic times and beyond?
2. How can SAP Marketing develop communications and marketing efforts that tie together SAP's expanded product and service offerings and yet are compelling to both existing and potential customers?
3. How can SAP continue to adapt to the greater consumer control being demonstrated throughout the global

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business world? How can SAP's voice be heard early and strong through the purchase decision process?

4. Given that SAP had roughly 100,000 customers at the beginning of Snabe and McDermott's appointment as co-CEOs, what did SAP Marketing need to consider in planning to help the company serve 1 billion people with its services?

5. What are the internal cultural implications for SAP given the focus of the co-CEO's to develop an "all in" strategy to support the "new normal" and transformed corporate strategy?

6. What can SAP Marketing do to get internal stakeholders to participate in market's transformation?



IN A CLEAR NEW WORLD
TRANSPARENCY ISN'T A NICE-TO-HAVE, IT'S A CAN'T-DO-WITHOUT

CLARITY FOSTERS SUSTAINABILITY
Sustainability is a lot more than knowing your carbon footprint. It's about optimizing your entire business network for the long term. It's about having real-time knowledge of every aspect of your organization so you can be transparent and accountable now, and be confident that you'll have a sustainable business for the future. SAP business software helps you better utilize your resources, enabling you to focus on achieving greater profitability — accomplishments that both stockholders and society can embrace.

CLARITY ANTICIPATES RISK
Can risk be alleviated? Not likely. Can it be anticipated and planned for? Clearly. And business software from SAP can help. With it, you can anticipate vulnerabilities, at any given moment, anywhere in your organization, while at the same time minimizing the rising cost of complying with regulations around the world. Bottom line, you can prepare for an event unforeseen trouble the right way, while it's still safely in the distance.



MATTHEW QUINT is the director of the Center on Global Brand Leadership at Columbia Business School, a worldwide forum for executives and researchers addressing the challenges of building and sustaining great brands. He offers thanks to Alison Abodeely, Alena Chiang, Tegan Culler, David Rogers, Bernd Schmitt, and James Wu for their support in writing this case, and Hanley Hoang for designing it. Tom Nagy took the Clear New World campaign photos. The case study was made possible with the generous support of SAP, and deep assistance from Krista Ruhe and Madhur Aggarwal.

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Appendix A: Top 10 ERP Software Vendors by Total Software Revenue, Worldwide (2008-2010, Millions in U.S. Dollars)

2009 Rank	2010 Rank	Rank Change	Vendor	2008	2009	2010	Share 2009 (%)	Share 2010 (%)	Growth 2009 (%)	Growth 2010 (%)
1	1	=	SAP	5,757.1	5,139.3	5,373.2	25.6	25.3	-10.7	4.6
2	2	=	Oracle	2,718.6	2,414.5	2,602.3	12.0	12.3	-11.2	7.8
3	3	=	Sage	1,436.4	1,338.8	1,265.3	6.7	6.0	-6.8	-5.5
4	4	=	Infor	1,312.6	1,081.5	1,053.0	5.4	5.0	-17.6	-2.6
5	5	=	Microsoft	890.3	856.3	946.4	4.3	4.5	-3.8	10.5
6	6	=	Kronos	455.6	450.4	497.0	2.2	2.3	-1.1	10.3
8	7	+1	Totvs	235.3	303.0	480.6	1.5	1.9	28.8	34.9
7	8	-1	Lawson Software	386.9	359.8	390.2	1.8	1.8	-7.0	8.5
9	9	=	UNIT4	284.9	279.3	308.4	1.4	1.5	-2.0	10.4
10	10	=	Concur	216.3	247.6	290.3	1.2	1.4	14.4	17.3
			Other Vendors	7,705.4	7,619.5	8,061.3	37.9	38.0	-1.1	5.8
			Total	21,399.4	20,089.9	21,196.1	100.0	100.0	-6.1	5.5

Source: Gartner (March 2011)

Appendix B: SAP Full Years (2007-2009)

€ million, unless stated otherwise	Full Year 2007	Full Year 2008	Full Year 2009	Change 2008 (%)	Change 2009 (%)
Software revenues	3,407	3,606	2,606	6	-28
Software and software-related service revenues	7,427	8,457	8,197	14	-3
Total revenues	10,242	11,567	10,671	13	-8
Operating expenses		-8,725	-8,031		-8
Operating income	2,732	2,842	2,640	4	-7
Operating margin (%)	26.7	24.6	24.7	-2.1pp	0.1pp
Income from continuing operations	1,934	1,925	1,825	0	-5
Net income	1,919	1,888	1,789	-2	-4
Basic EPS from cont. operations (€)	1.6	1.62	1.54	1	-5

Appendix C: Brand Value (2001-2009)

