

WHITE PAPER

Enabling Software and SaaS Vendors to Gain Competitive Advantage: Partnering with SAP for Business Intelligence and Analytics to Achieve Rapid ROI

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EXECUTIVE SUMMARY

Organizations of all sizes across industries are demanding that business intelligence (BI) and analytics functionality in the form of query, reporting, advanced analytics, data warehousing, and analytic applications be provided to them to support or automate strategic, operational, and tactical decision-making processes.

This demand stems from the growing body of evidence showing a link between investment in BI and analytics solutions and competitiveness. BI and analytics solutions should be both provided as standalone components and integrated with operational applications to ensure their pervasive availability.

On-premises software and software as a service (SaaS) vendors looking to provide BI and analytics functionality have a choice to develop their own components or to partner with an existing BI and analytics vendor. Bringing products to market through partnering is becoming a key success factor in the software industry. This trend is becoming especially relevant in the BI market. IDC believes that the BI market has reached a level of functional maturity where partnering with an established BI vendor presents a compelling economic case.

One of these vendors is SAP — the leading BI tools provider. In this white paper, IDC presents evidence showing that a partnership with SAP can result in:

- ☒ **Positive, rapid ROI.** The IDC study for this white paper found that software and SaaS vendors partnering with SAP for BI and analytics functionality achieved an average ROI of 235% with a mean payback period of 6.3 months.
- ☒ **Improved productivity.** Developer productivity gains enable vendors to divert programming resources into other work primarily based on their core competency in either vertical or horizontal applications.
- ☒ **Innovation.** OEMing BI functionality provides vendors with the ability and freedom to focus on what they do best (i.e., provide industry- and business function-specific applications).

BI software is increasingly a key component of enterprise IT architectures and a requirement for most enterprise application sales. The goal for software and SaaS vendors in horizontal and vertical application markets should be to provide a complete solution that seamlessly combines both operational and analytic functionality.

METHODOLOGY

The quantitative ROI results presented in this white paper are based on interviews and a survey conducted by IDC and Sample Analytics on behalf of SAP. The ROI results and characteristics of partnering with SAP for BI functionality were evaluated during a period from August to October 2009. Although SAP identified its partners for IDC, SAP itself did not participate in the interviews, which were independently conducted by IDC analysts.

All but one of the 64 SAP BI partners evaluated are based in North America; 53% have more than 500 employees; and 80% deliver their products primarily as licensed software, the rest as SaaS. These SAP BI partners provide software and services that target a broad spectrum of industries and business processes. The average duration of partnerships for the group of software vendors evaluated was 6.4 years.

IN THIS WHITE PAPER

In this white paper, IDC presents evidence showing a link between investment in BI and analytics solutions and organizational competitiveness as well as signs of continued, strong demand for BI and analytics solutions. For software and SaaS vendors looking to capitalize on this demand, the white paper presents research results showing positive ROI for vendors partnering for BI functionality with SAP based on its SAP BusinessObjects product portfolio.

SITUATION OVERVIEW

Competitive Advantage Through Business Intelligence and Analytics Solutions

The extent of BI pervasiveness is a statistically significant predictor of organizational competitiveness — this is one of the most significant conclusions from a recent IDC research project entitled *Improving Organizational Decision-Making Through Pervasive Business Intelligence: The Five Key Factors That Lead to Business Intelligence Diffusion*.¹ The study sheds light on the importance of BI solutions as an enabler of competitiveness. It identifies six key indicators of pervasive BI and five factors that organizations should focus on to increase the pervasiveness of their BI solutions. For example, a higher level of analytical orientation and a higher level of satisfaction with data update frequency are both correlated with higher levels of competitiveness.

In an earlier study, IDC showed that mean return for end users deploying BI and analytics solutions is 112%.² Other research projects, such as *Competing on Analytics*,³ which was published first in 2006 in the *Harvard Business Review* and then in 2007 by Harvard Business School Press, provide further evidence of the value that end-user organizations can derive from investing in BI and analytics solutions.

As evidence of the competitive value of BI and analytics solutions grows, fact-based decision making is spreading throughout commercial, nonprofit, and public sector organizations. The economic downturn has spurred organizations to examine ways of

retaining customers, spending capital and operating budgets, and complying with regulations. However, over the long term, BI and analytics solutions will continue to be applied to optimize a wide array of processes in an effort to improve performance management and organizational competitiveness.

Demand for Business Intelligence and Analytics Solutions

Pervasive BI Solutions Defined

IDC research has led to the following definition of pervasive BI:

Pervasive business intelligence results when organizational culture, business processes, and technologies are designed and implemented with the goal of improving the strategic and operational decision-making capabilities of a wide range of internal and external stakeholders.

When describing BI software, IDC includes tools for ad hoc query and reporting, production reporting, OLAP, data mining, and statistics. The broader business analytics software also includes tools for data warehousing as well as various performance management and analytic applications.

Size and Expected Growth of the BI and Analytics Market

BI tools represent an \$8 billion worldwide software market.⁴ Although the BI and analytics market has not been immune from the effects of the global economic recession, the demand for BI and analytics solutions has remained robust and is expected to accelerate over the next five years. In a mid-2009 study, IDC found that BI and analytics ranked at the top of a list of 18 application types most likely to see an increase in investment over the next 12 months.⁵

The BI tools software market is forecast to increase at a compound annual growth rate of 7%. Although BI and analytics technology has been available for three decades, it is only now entering the mainstream, and the demand for BI and analytics solutions is expected to accelerate.

BECOMING A BI AND ANALYTICS SOLUTIONS SUPPLIER

Today end-user organizations have options for acquiring and deploying BI and analytics solutions. The need remains for both standalone tools and functionality embedded within other applications. In each case, the software can be deployed on premises, hosted as a SaaS, or provided by an outsourcing service provider.

Software and SaaS vendors looking to take advantage of these demand trends have the opportunity to provide a range of functionality to their clients. This functionality may include ad hoc query tools to support power users, dashboards to support managers, production reporting tools to enable information access by information

consumers, and analytic applications that combine BI functionality with industry and business process expertise into prepackaged solutions.

Regardless of the functionality or the solution delivery method, vendors need to consider whether to build their own BI and analytics tools or to partner with an existing BI and analytics software vendor to integrate or embed this functionality into their own offerings.

Build or Partner for Business Intelligence

Market research suggests that today it makes little financial or strategic sense to "reinvent the wheel" by spending valuable resources on developing one's own BI tools. Given the maturity of the underlying technology, most software and SaaS vendors will be well served to partner for BI and analytics functionality.

Partnerships and alliances in the software market range from relationships with original equipment manufacturers (OEMs), value-added resellers (VARs), and volume distributors to relationships with systems integrators and technology and marketing partners. OEMs, in turn, can take on different forms, including bundling, embedding, and hosting the partner's software.

The choice of a BI and analytics partner depends on several factors, including the quality of software functionality and its performance, ease of integration with other applications, customer support provided by the vendor, market position of the vendor, and obviously cost. One of the BI and analytics vendors to consider for such an OEM partnership is SAP with its BusinessObjects family of BI and analytics software.

Partnering with SAP BusinessObjects

Before SAP's acquisition of Business Objects in 2007, the latter derived over 45% of revenue from partnerships. SAP has maintained this strategy, signaling a continued commitment to partnerships. Today, SAP is the leading holder of market share in the BI tools market and offers a broad portfolio of server and end user-facing components and modules addressing a broad range of query, reporting, and analysis functionality requirements.

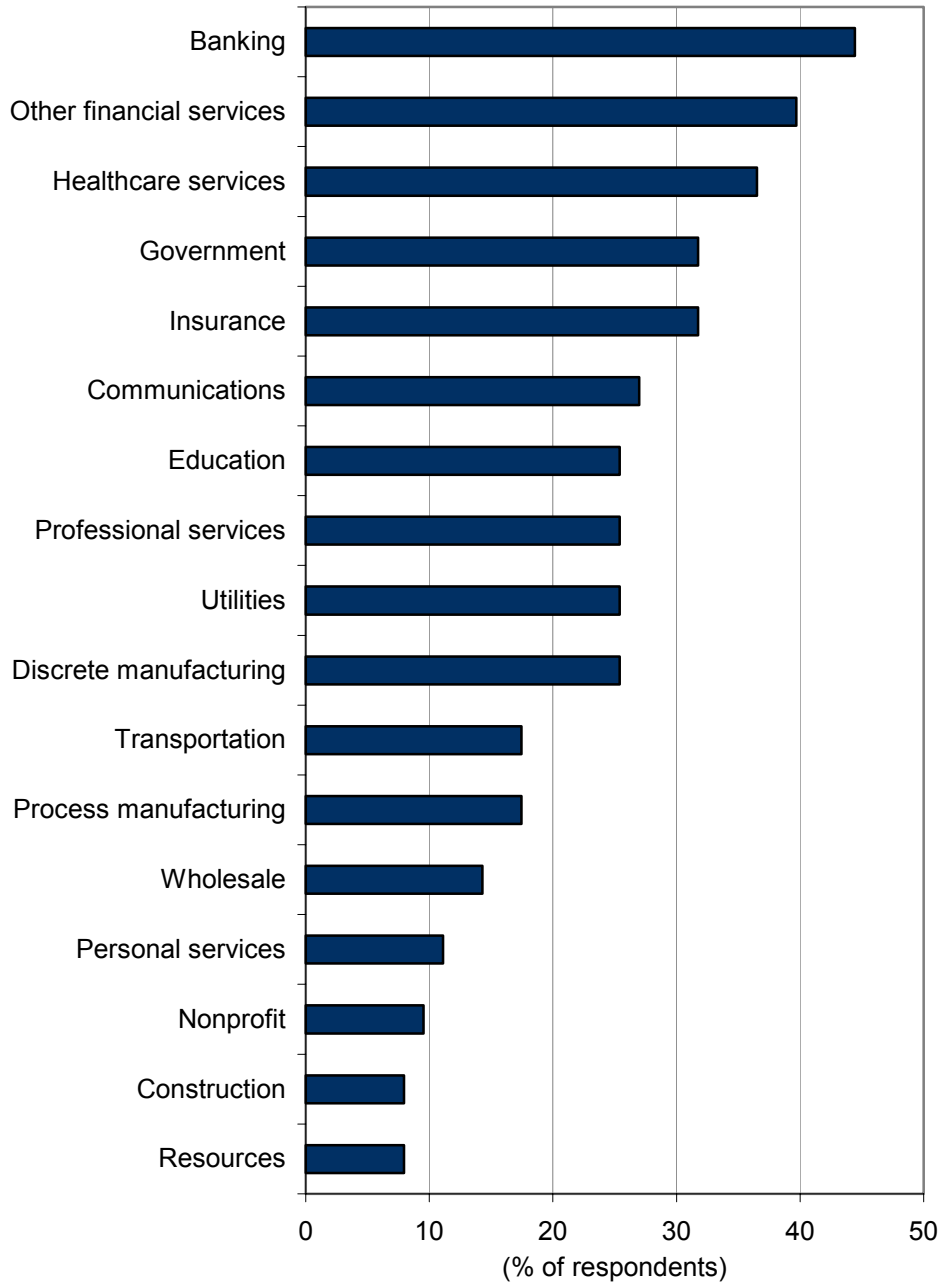
The study for this white paper evaluated OEM partnerships between software and SaaS vendors and SAP — specifically for the use of SAP BusinessObjects software. Forty-eight percent of these vendors did not provide any BI functionality before partnering with SAP BusinessObjects. The other 52% were split almost evenly between those that had developed their own BI software at one point and those that used BI software from other vendors before switching to SAP BusinessObjects software.

It's important to point out that the software and SaaS vendors contacted by IDC represent a heterogeneous group of solution providers targeting a broad range of business functions — such as incentive management, customer interaction management, K-12 education management, membership management, healthcare case management software — as well as industries, as shown in Figure 1.

FIGURE 1

Vertical Industry Solutions by SAP BI Software and SaaS Partners

Q. Which of the following vertical industries are you targeting in your go-to-market strategy?



Source: IDC, 2009

Any given vendor considers several factors before choosing to partner with SAP BusinessObjects. In many cases, an interesting dichotomy of attitudes exists toward SAP BusinessObjects. On the one hand, vendors recognize the breadth and depth of BI functionality, market credibility, and operational productivity that they gain with SAP BusinessObjects BI software. On the other hand, these vendors appreciate the ability to embed this BI technology within their own applications or service offerings so that their value-added expertise in specific industry and business process domains is highlighted.

As one of the vendor executives said, "Because of the features that we're capable of providing now, with SAP BusinessObjects, we are getting more requests for information. Those requests aren't for information about SAP BusinessObjects in particular. They are about the features that we're developing with their technology."

Another vendor added, "I would say that we do enjoy more success because of partnering with SAP BusinessObjects. We are invited to more of the proof of concepts from our prospects. They [the prospects] like the idea that we support the world's leading BI tool. It gives us a foot in the door. But no one makes their decision based just on BI because we have our own solution that we sell. It's the combination that creates the greatest value."

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The reasons for partnering with SAP BusinessObjects for BI functionality are varied. Figure 2 depicts the most commonly cited reasons based on the IDC study.

FIGURE 2

Reasons for Partnering with SAP BusinessObjects

Q. *What were the main reasons for your decision to partner with SAP BusinessObjects and resell and/or embed its BI technology in your solution(s)?*



Source: IDC, 2009

These reasons show a balanced segmentation among revenue-enhancing, innovation, and cost-saving factors.

We were initially surprised that just over 10% of responses indicated that expanding the addressable market was one of the reasons for OEMing BI technology. However, further analysis suggests that many software and SaaS vendors that have OEM relationships with SAP BusinessObjects specialize in narrowly defined industry and business process market segments. This focus is by choice and enables these

vendors to differentiate themselves based on specialized expertise. In these cases, the BI functionality doesn't necessarily enable these vendors to expand their addressable market; instead, it enables them to become more pervasive in their existing market and gain competitive advantage over their rivals.

RETURN ON INVESTMENT

IDC's study found that software and SaaS vendors partnering with SAP BusinessObjects for BI and analytics functionality achieved an average ROI of 235% with a mean payback period of 6.3 months. This ROI is comparable to the results from a similar IDC study in 2006. However, the payback period has since decreased from 12 months to just over 6 months.

SaaS vendors partnering with SAP BusinessObjects for BI and analytics functionality achieved an average ROI of 235% with a mean payback period of 6.3 months.

For the study participants, value accrued through quantitative and qualitative benefits ranging from increased productivity to reduced costs and direct increase in revenue. Vendors consider their partnership with SAP BusinessObjects either a necessary cost of business or a critical factor in their plan for success in a highly competitive market.

It is important to note, however, that ROI tells only part of the story. In some cases, vendors embedded BI tools in their operational applications to the point where they were unable to decouple the ROI achieved by BI from that of the overall application. This example shows the level to which BI is becoming increasingly integrated into business processes as a required component rather than being "nice-to-have" standalone software.

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As IDC looked at both the investments by and the benefits to vendors working with SAP BusinessObjects BI technology, the following key factors emerged.

The Return

Revenue and Profitability

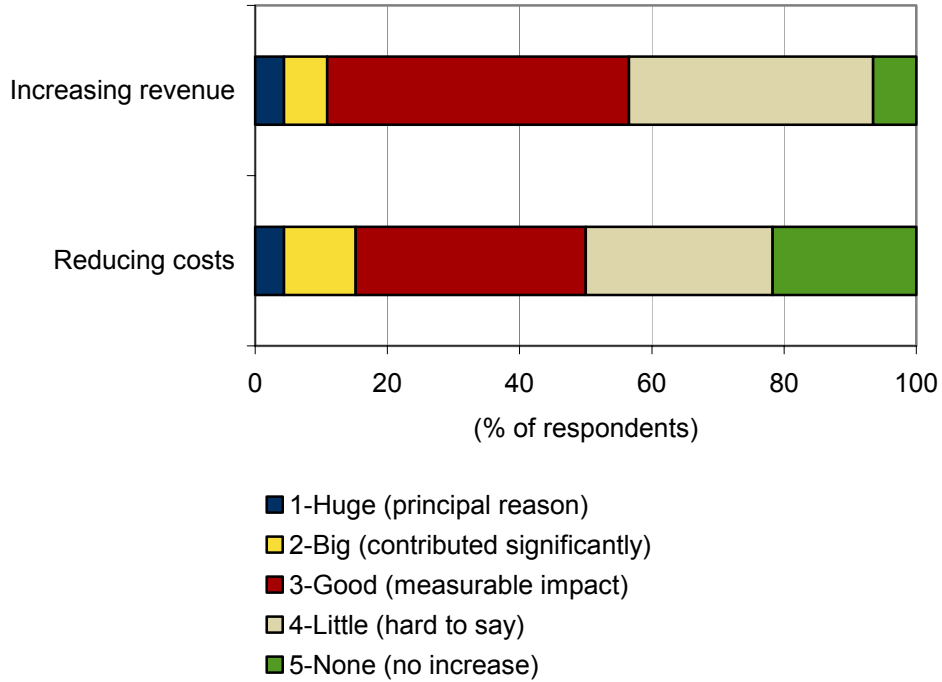
The average return, based on operation profit, for software and SaaS vendors evaluated in this study was \$830,000 in the first year and averaged \$1.26 million over a three-year period. These figures are based on both new and add-on revenue as well as subsequent additional maintenance revenue. The average reported operating margin was 22%.

Figure 3 shows the impact on increasing revenue (and reducing costs) that vendors attributed to the partnership with SAP BusinessObjects. Close to 60% indicated that the impact of increasing revenue was measurable or quantifiable.

Software and SaaS vendors on average attributed 6.6% of total software revenue to sales of embedded SAP BusinessObjects products and 8.3% of total revenue to reselling SAP BusinessObjects products.

FIGURE 3

Impact of SAP Partnership on Increasing Revenue and Reducing Costs



Source: IDC, 2009

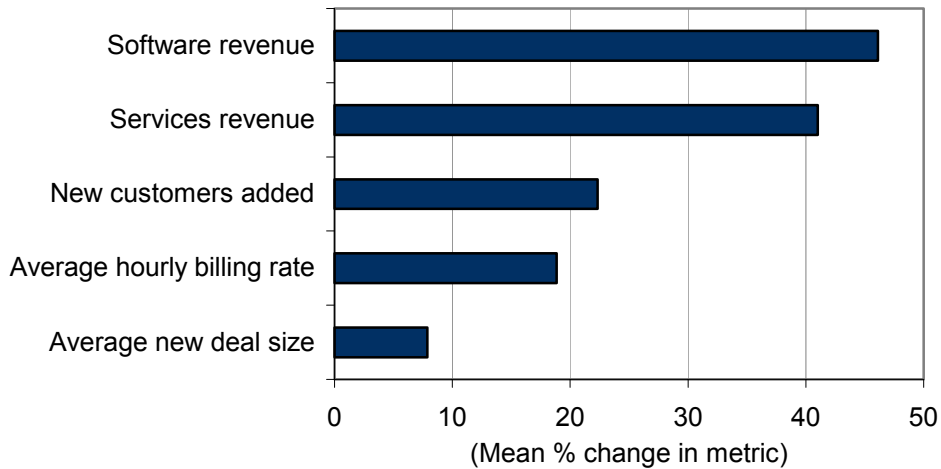
Several software and SaaS vendors mentioned that BI functionality has become one of the key features with which they lead in their sales process. Other vendors indicated that they are able to respond to RFPs more thoroughly because they can address more of their customer requirements with a comprehensive solution.

The impact on revenue and on other business metrics due to the addition of BI functionality from SAP BusinessObjects is shown in Figure 4, which lists the variables most impacted over the time period since the partnership commenced through 2008.

FIGURE 4

Average Change in Each Metric

Q. Comparing calendar year 2008 with the year before you first partnered with SAP, what has been the percentage change in each metric due to the addition of BI functionality from SAP BusinessObjects?



Note: Top 5 responses are shown.

Source: IDC, 2009

Although the primary reason for partnering with SAP BusinessObjects was to fulfill the customer need for BI software functionality, the increase in professional services revenue was also a key benefit. As one of the interviewed vendors said, "...and then there are customers that pay us to create custom dashboards for them. That's a growing part of our business." BI initiatives are rarely only about technology deployment. IDC is observing a market trend that is leading to greater opportunities for services that will assist clients with improving their overall performance management methodologies and the related support for ongoing enhancement of the BI solution for those organizations that don't have the internal expertise or resources to do it on their own.

Besides these quantifiable returns, software and SaaS vendors reported several additional benefits.

Productivity

Although a portion of the vendors in the past had developed their own basic reporting tools, these software and SaaS vendors felt that it would take significant time to create their own BI software with the same functionality provided by SAP BusinessObjects. It was not uncommon to see significant productivity gains in the report-development process (e.g., turning a three- to four-person group working two to three weeks into a one-hour exercise for a single developer). Developer productivity gains enable vendors to divert programming resources into other work

Although the primary reason for partnering with SAP BusinessObjects was to fulfill the customer need for BI software functionality, the increase in professional services revenue was also a key benefit.

Developer productivity gains enable vendors to divert programming resources into other work primarily based on their core competency in either vertical or horizontal applications.

primarily based on their core competency in either vertical or horizontal applications. Two vendor quotes highlight these points:

- ☒ "Instead of developing and redeveloping components ourselves, we take advantage of existing software. So we avoid coding. For example, one of the key requirements from our clients is to have MS Office integration. With the SAP BusinessObjects BI technology, we can create reports and drop them into MS PowerPoint where our customers can then automatically refresh their reports. If we didn't have SAP BusinessObjects, we'd have had to create all that code."
- ☒ "We are also able to deploy the software faster. We have gained at least a month in typical deployment time since we switched from our old BI tool to SAP BusinessObjects."

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Credibility

Credibility is often difficult to quantify, but vendors frequently cited that working with the BI market leader added validity to their responses to RFPs or secured confidence from prospects during proof of concepts. Vendors, referring to SAP BusinessObjects, mentioned:

- ☒ "Their customer base is very impressive, and they have a strong brand. A lot of our customers use SAP BusinessObjects in other parts of their organization. We feel that they are an industry standard when it comes to BI and reporting. So that's why we partner with them."
- ☒ "We integrate their tools with our solution. So you can't even tell that it's an SAP BusinessObjects solution. And yet, we do tell customers up front that we use SAP BusinessObjects for their strength. But then they can't tell that while they are using it...it's transparent."

Innovation

Although the BI market is functionally mature, product innovation requirements remain high as more users with differing demands for BI features and functionality are brought into the market. OEMing BI functionality provides vendors with the ability and freedom to focus on what they do best (i.e., provide industry- and business function-specific applications) while avoiding noncore development tasks, such as those for query and reporting infrastructure. Vendors mentioned that:

OEMing BI functionality provides vendors with the ability and freedom to focus on what they do best while avoiding noncore development tasks, such as those for query and reporting infrastructure.

- ☒ "By integrating SAP BusinessObjects into our solutions, we are doing more on our end to make the user experience simpler. That will make our customers' life easier. Until we started using SAP BusinessObjects, it was very difficult to support anything beyond basic reporting. In the future, we can see that more people will want more sophisticated BI tools, and we're ready to support those needs."
- ☒ "We chose to partner with SAP BusinessObjects because of their ability to support production reporting and because the software enabled our customers — contact center manager or supervisor — to easily create their own reports or be able to slice and dice the data. The range of prebuilt and self-service BI functionality has allowed us to change the overall direction of what we're offering for the contact center, and that has placed us at the forefront of innovation in our market segment."

Support

Finally, vendors reported that another key reason for partnering with SAP has been the support they receive from SAP:

- ☒ "We get a lot of help from SAP. They offer a lot of training, and they are very responsive to our engineers when they need help in development. For us, the time to market is a key to success. If we didn't have that level of support, it would take us longer to get our products out the door, thus jeopardizing our ability to compete."
- ☒ "SAP went well beyond our expectations in helping us be successful in development of the initial proof of concept. That's what made us decide to go with them. For ongoing support, they have a very good Web site for partner support. It's an excellent resource for a partner like us that doesn't want to call them all of the time. And they offer great user group meetings and ongoing training with resources for both our technical and sales/marketing staff."

Investment

The average initial investment for software and SaaS vendors evaluated in this study was \$330,000, with \$200,000 in annual investments. The commitment to the partnership manifested itself in a number of direct and indirect investments by the vendors, including:

- ☒ Need to train or hire appropriate development staff. Most vendors mentioned that they have SAP BusinessObjects–certified specialists as part of their R&D staff, with other development staff cross-trained on the basics of the product.
- ☒ Development and/or customization of BI solutions based on the SAP BusinessObjects toolset. Some vendors had a single query and reporting offering, while others provided several options for their clients, including:
 - ☐ Preconfigured reports based on core tables of their operational applications, including prebuilt data models that organize data for reporting, universes, cubes, KPIs, reporting hierarchies, and other BI content
 - ☐ Custom-designed reports having the most flexibility but requiring the most development and customization time
 - ☐ Complete packaged analytic applications with business process and/or industry-specific KPIs (key performance indicators) and workflows
- ☒ The direct cost of OEMing SAP BusinessObjects software
- ☒ Ongoing maintenance of the partnership relationship and the technology solution

Cash Flow

Table 1 shows the cash flow from the initial investment through the three-year analysis period.

TABLE 1

SAP BI Partner Average Cash Flow (\$)

Cash Flow Analysis	Year 0	Year 1	Year 2	Year 3
Revenue		829,773	1,202,627	1,451,747
Investment	332,166	201,072	201,072	201,072
Cash flow	(332,166)	628,701	1,001,555	1,250,674
Running cash flow	(332,166)	296,535	1,298,090	2,548,765
Payback (months)		6.3		

Source: IDC, 2009

OPPORTUNITIES AND CHALLENGES

Opportunities

As demand indicators for BI and analytics functionality described earlier in this white paper suggest, the opportunities for providing BI functionality abound. Opportunities exist across all industries, all company sizes, and all geographic regions. Software and SaaS vendors should ensure that the BI tools they provide through or with their applications are focused on functionality appropriate for the needs of their customers.

Based on our study, over the next two years, current SAP BusinessObjects partners are most likely to focus their BI efforts on data visualization and dashboard functionality followed by performance management applications and extract, transform, and load (ETL) tools. However, it is important to recognize the wide range of end-user types and their specific BI requirements that exist in most organizations. For example, managers may be looking for dashboards and analysts may seek highly interactive data visualization and multidimensional analysis tools, while some end users will be looking for production reporting.

Challenges

Successful partnerships can be critical to a software or SaaS company's success. Several vendors mentioned that their time frame for responding to RFPs either didn't change or, in fact, became longer. While this may seem like a challenge, vendors reported that because they were able to address more prospect requirements, the increase in the RFP response time was actually a positive development.

Several vendors advised not to expect an immediate impact on sales based on the inclusion of the BI software. There is always a learning curve for fully leveraging new technology. However, as the six-month ROI payback period shows, most vendors can expect substantial benefits within a relatively short time frame.

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CONCLUSION

Bringing products to market through partnering is becoming a key success factor in the software industry. This trend is becoming especially relevant in the BI market. IDC believes that the BI market has reached a level of functional maturity where partnering with an established BI vendor presents a compelling economic case, as evidenced from the ROI being achieved by SAP BusinessObjects partners. As the leader in the BI tools market, SAP BusinessObjects should be considered as one of the key candidates for such partnerships.

Bringing products to market through partnering is becoming a key success factor in the software industry. This trend is becoming especially relevant in the BI market.

BI software is increasingly a key component of enterprise IT architectures and a requirement for most enterprise application sales. The goal for software and SaaS vendors in horizontal and vertical application markets is to provide a complete solution that seamlessly combines both operational and analytic functionality. Even if organizations choose an enterprise application without BI being the driving factor, IDC research consistently shows that organizations are less likely to purchase an application if BI is not included.

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