Building Trust

LEADING CEOs SPEAK OUT: HOW THEY CREATE IT, STRENGTHEN IT, AND SUSTAIN IT.

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Dr. Henning Kagermann

CHAIRMAN OF THE EXECUTIVE BOARD AND CHIEF EXECUTIVE OFFICER
SAP AG

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– Dr. Henning Kagermann

TRUSTED INNOVATION

These days, nearly everyone talks about trust and innovation, though usually not in the same breath. So why am I putting them together here?

I believe if you want to manage your business for tomorrow and create sustainable business value, especially in the digital age, when success or failure is just a click away, you can't have one without the other.

At SAP we understand firsthand that economic success starts with our ability to innovate. We also know that in order to sell our innovations we need to earn the trust of everyone we do business with.

In fact, we believe in this concept so strongly we recently created our first SAP Innovation Report, which is an innovation itself in the IT industry, to demonstrate what software can do and where we are investing resources to improve IT and create value for our customers. More than 100 pages long, the information in the report is geared toward everyone interested in SAP, whether they are already a customer, interested in becoming one, or are a partner, investor, or member of the general public.

Why did we do it? Simply put, we want to be known as the trusted innovator. And in an economic climate such as the one we're in, where cases of corporate malfeasance shout at us from the headlines, and too often companies communicate in an opaque rather than transparent fashion, we thought we'd take the lead in openly and honestly sharing our thoughts and practices about innovation.

If you will, allow me to take this opportunity to share some of those same thoughts and practices with you.

According to the Austrian economist Joseph Alois Schumpeter, invention is the creation of a new idea or concept. Innovation is taking that idea, reducing it to practice, and making it a commercial success.

These words indeed reflect the core of SAP's basic business philosophy: We want to make innovation happen. And we want to make it happen in a way that makes sense economically and technologically. We are focused on turning new concepts and ideas into real business benefits for our customers. In fact, the entire SAP organization is built around this credo. Its goals are not dissimilar to the principles articulated by Arthur W. Page.

Innovation has been an important part of our culture since SAP was founded. Building on the groundbreaking idea of standard enterprise software, we have become the leading provider of complete business solutions and a trusted innovator and adviser to our customers. Every employee and process in our organization is focused on the complex challenge of driving and shaping innovation. As experts in their respective fields, our employees continually mine and analyze new ideas, whether from customers, the market, research institutions, or other employees. Only through continual investigation of the potential benefits of new technologies and processes can SAP remain on the cutting edge and help our customers get the most out of their investment.

We have learned over the years that technology, when combined with proven or innovative business practices, can indeed create competitive advantage and sustainable growth. The transformation toward an information-driven economy is in full swing. We have created a foundation with today's information systems, but many new ideas remain to be realized. This is why talk of the commoditization of IT is exaggerated. IT does matter and will continue to do so.

Beyond hype, IT is changing the way we do business. There are many ways of examining this. From a shareholder perspective, we are seeing a shift from an economy based on tangible assets to an economy based on intangible assets. In the industrial age, energy was abundant, while factories and equipment were the limiting factors. In the digital age, information is abundant, but only the right processes, people, and relationships can turn it into economic value. These intangibles turn out to be critical resources for success in today's economy.

Since it was founded, SAP has been on the forefront of this digital

transformation and focused on helping to shape this transition in a meaningful way to create customer value. Indeed, many of our customers, such as Rolls-Royce, recognize their SAP solutions as strategic assets and include them in their annual reports.

JUMPING ON THE BANDWAGON IS NOT THE WAY TO GO

For SAP, added value begins with the development of high-quality, standard business applications that can find a broad range of uses. That means we are not innovating for innovation's sake or jumping on the bandwagon for every new idea that appears. This is important because our customers expect us not only to deliver reliable software, but also to maintain this software throughout the entire software life cycle. The timeframe for this can be five years for one release and up to 15 to 20 years for the life cycle of one product.

Our recipe for innovation begins by creating a robust extendable platform to support the accelerated adoption of innovation. Any product we deliver is a balance of reliability and renewal. Our solutions combine recognized best business practices on a stable, reliable core such as mySAP Business Suite, with the latest in leading-edge next practices such as SAP xApps. This reflects the varying needs of our customers. Some are interested only in stable, tried-and-true technology, while others are what we call "early adopters." These companies are willing to use technology that may not be completely bug free, but for them, fast adoption is everything. Of course, we constantly evaluate if and when these latest technologies will become part of the standard package.

To translate new ways of doing business into affordable business solutions requires the optimal combination of the latest technology with a sound understanding of customers' business requirements. As new technologies appear, we carefully evaluate their use and impact on

our customers. This approach certainly proved itself during the dot-com era, when companies scrambled to be on the Internet with new businesses that were not necessarily sustainable. That didn't seem to matter, as being "on the Web" was all the rage. Throughout this fad, many software companies lost focus on the core of doing business, creating value for customers, sustaining a viable company with a leading-edge corporate culture, and being a socially responsible corporate citizen.

We do need to recognize, though, that not everything was lost when the dot-com bubble burst. With the Internet came many new inexpensive, open standards, which SAP has committed to using. With it also came an infrastructure that has tremendously lowered costs for computer-based communications. These shifts create new possibilities that will have an enormous impact on our economy. Indeed, e-business is not an empty promise. Still, unlocking its potential is not a matter of euphoria; it is a matter of thoroughly exploring the possibilities and shaping solutions that lead to a new level of business excellence.

PARTNERSHIPS ARE KEY

Whenever a company implements an SAP solution, it needs the entire "stack" around the software. This includes hardware, operating systems, databases, middleware, and complementary applications. It also includes consultants who can help a company make the most of their business-application investment.

Partnerships are vital for SAP. Only in close cooperation with our partners is it possible to unlock the full potential of our solutions—and to drive sustainable innovation.

Take the question of standards. With no common technical standards, the Internet would not exist. Today, we know that the full potential of collaboration can only be unlocked with additional semantic standards. More than ever, these standards are not a matter of a single provider alone. They can only be achieved by close coordination with other industry players.

Another example of the importance of partnerships is in the question of quality. The quality of a project and of a solution indeed depends on many partners. Only a joint commitment can make sure that the customer has the best possible solution. This aspect again shows that innovation takes much more than new features and possibilities. As IT increasingly plays a mission-critical role for the enterprise, new levels of quality and reliability are mandatory—and these require new ways of partner cooperation.

Yet another example is Total Cost of Ownership (TCO). It takes more than one company to make sure that innovation stays affordable. The whole ecosystem has to deploy the right creativity to make sure costs stay under control. The best innovation is of no practical value if it is too expensive.

Standard software by definition cannot include every function every company or industry needs. That is why we have made extendability an important part of our philosophy. Since the beginning of SAP, our solutions have been delivered to our customers with a development environment, which they can use to make changes in the software as needed. Our partners also develop flexible extensions to map additional customer needs to our software. Through extendability our customers can gain competitive advantage and have access to a cost-efficient mix of standard functionality and custom development.

We recognized the importance of partnerships early on and have grown an extended partner network over the years. We do have global partnerships, but we also want to consider local needs. That is why our partner network includes both global and regional companies. Today, our partners include such global players as Accenture, Hewlett-Packard, IBM, and Microsoft, but also more local companies in all regions and many industries.

INNOVATION NETWORK

Staying on the leading edge of information technology requires dedicated research resources. SAP Corporate Research is a worldwide organization responsible for researching, understanding, and developing new technologies and processes that may affect the future of SAP business applications. This group determines the business value of new technologies and then transfers them to SAP development groups for integration into new or existing product lines.

In addition, we have an SAP Innovation Syndicate, which is an internal network connecting all groups concerned with innovation at SAP. Our external network of researchers and universities is organized through our SAP University Alliances program, the highlight of which is the yearly SAP Innovation Congress.

INNOVATIVE DEVELOPMENT

When developing business software, two different life cycles must be aligned. On one hand, there is the customer engagement life cycle. Customers first need to explore the software and create a business case, which we can help them develop, before they make the final decision, particularly in today's difficult economy. They then need to imple-

ment, operate, and upgrade their systems. At the other end of the spectrum is the product innovation life cycle. Requirements must be evaluated, software must be designed, source code must be developed, and a solution production process must guarantee the quality and integrity of the individual solution. Finally, production systems must be maintained.

The strength of the SAP organization is to harmonize these two cycles and to make sure that we best serve our customers while maintaining efficiency. In our experience, only this balance can generate sustainable innovation.

Now, this balance is not static. It depends on circumstances and on the maturity of the different solutions. Today, we continue to focus on what we view as critical for successful software development. This includes ensuring our software has an industry focus, leveraging experience both within SAP and from our partners, working with pilot customers to test-drive new developments, and even looking to experts in their respective fields for insight.

In the past, the traditional core development process at SAP involved four distinct phases: specification, design, development/testing, and verification. These four phases are still important, but today we view them from a different angle, as a spiral instead of a straight line from beginning to end. Development processes have become more interactive and fluid, and actual development more incremental and evolving. With a new model of increased prototyping and customer feedback and continuous improvement, we can more easily redirect development, identify gaps, simplify reuse of software building blocks, and above all ensure flexible development. This incremental approach means a gradual increase in the breadth of functionality and allows us to deliver new in-depth functions quickly and solidly at any point in

the cycle. At the end of each phase, results are reviewed and decisions are made on how to proceed. Concrete results are produced and verified during each phase and can not only be demonstrated to customers, but also reused in other projects as needed.

Reuse is crucial to our new development model and to our customers for a number of reasons. It underscores our commitment to delivering standard software for broad usage. By reusing common parts, we can speed up development through consistent reuse, reduce redundancies and improve solution homogeneity, more quickly identify and correct bugs, reduce development costs, and ultimately raise the overall quality of our solutions. For our customers, reuse means learning once and using multiple times because they have a more intuitive understanding of our software. Use of user interface patterns, for example, drives a faster learning curve and ultimately means higher quality.

CUSTOMER FOCUS

Just as our approach to development has evolved, so has our approach to involving customers in development. While we have always made sure we understand our customers' needs before writing code, we now take this to a new level with a strategic look at their business.

This results in open brainstorming. Country- and industry-specific advisory councils, such as Americas' SAP Users' Group (ASUG) and the German SAP Users' Group (DSAG), consider not just which functions may be needed, but where we can help companies identify how software can change and increase the value of their business. This means making sure the software we develop covers the maximum range of business processes and new business opportunities. With stra-

tegic development projects in conjunction with specific customers, we can help these companies quickly develop and implement new functions on the fly.

Thanks to this new development paradigm, customers have faster access to innovations they themselves helped drive. They can also be guaranteed that each innovation has been carefully evaluated, shaped, and verified for use in their heterogeneous IT landscape.

Over the past 30 years, software, information technology, and computers have significantly changed the way business is run. As a trusted innovator for our customers, SAP is a facilitator of this change, quickly turning ideas into reality and creating tangible business value. By ideas, we mean new technologies and new business practices that align with our experiences, because software applications are more than just the technology they are built on. They must combine technology and business practice to provide sustainable benefits for our customers. The road from recognizing the vision to building a solution with real benefits may at times be long, but I can truly say, "SAP makes innovation happen."

Dr. Henning Kagermann
CHAIRMAN AND CEO
SAP AG

Prof. Dr. Henning Kagermann is chairman of the Executive Board and CEO of SAP AG. From 1998 to 2003, he was co-chairman of the SAP Executive Board and CEO together with Hasso Plattner, co-founder of SAP. Following Plattner's election as chairman of the SAP Supervisory Board in May 2003, Kagermann became sole chairman of the Executive Board of SAP AG and CEO.

Kagermann has overall responsibility for SAP's strategy and business development, marketing, and global communications as well as for consulting and customer development. In addition, he leads the field management board and the product technology board. He is head of the Business Solution Group (BSG) Financial & Public Services, which includes the development organizations for financial services, insurance industries and public services as well as the human capital management, financials and enterprise resource planning development teams.

Kagermann joined SAP in 1982 and was initially responsible for product development in the areas of cost accounting and controlling. Later, he oversaw the development of all administrative solutions, including human resources and industry-specific development for banking, insurance, public sector and health care. His duties also included finance and administration in addition to the management of all regions of SAP. Kagermann has been a member of the SAP Executive Board since 1991.

A physicist and mathematician, Kagermann taught physics and computer science at the Technical University of Braunschweig and the University of Mannheim in Germany from 1982–1992 while at SAP. He is also a trustee of the Technical University of Munich.

Kagermann is currently a member of the supervisory boards of Deutsche Bank AG, DaimlerChrysler Services AG, and Münchener Rückversicherungs-Gesellschaft AG (Munich Re).

SAP AG

Founded in 1972 and headquartered in Walldorf, Germany, SAP is the world's leading provider of collaborative business solutions. It is the world's largest inter-enterprise software company, and the world's third-largest independent software supplier. SAP employes more than 28,900 people in more than 50 countries. Today, more than 21,600 customers in over 120 countries run more than 69,700 installations of SAP® software.

Through mySAP™ Business Suite, people in businesses around the globe are improving relationships with customers and partners, streamlining operations, and achieving significant efficiencies throughout their supply chains. The unique core processes of various industries, from Aerospace to Utilities, are supported effectively by more than 25 industry-specific SAP solution portfolios.

In 1997, SAP debuted on the New York Stock Exchange. Today, with subsidiaries in over 50 countries, the company is listed on several exchanges, including the Frankfurt stock exchange.

For more information, visit: www.sap.com.
Stock Symbol: SAP