

On-Demand Solutions from SAP

Co-Innovation at SAP

Best Practices That Bring On-Demand Solutions to Market More Quickly



The Best-Run Businesses Run SAP™



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Innovating a New Product Is Only Half the Battle

If you have an urgent business need for an on-demand application, see an opportunity for first-mover advantage, or personally want to see a specific on-demand application be built, then this paper is for you. Here you'll learn how companies like yours **partner with SAP to bring their software ideas to life** – and benefit by gaining fast access to world-class, on-demand solutions from SAP.

Are you ready to shape and influence the next on-demand application from SAP? You're invited to the table – because at SAP, it all starts with the voice of the customer. And by participating, you not only get to prioritize functionality and user interfaces but also benefit from high user acceptance, reduced project risk, and access to functionality well ahead of your competition.

Innovation happens when creative ideas are transformed into new products, services, or processes and they successfully penetrate the market. When companies have a great new idea for a software product, they can fail to get it to market effectively because:

- The development process takes too long
- The delivered software solutions do not meet customer requirements or provide enough value
- The products include too many bugs

That's where the co-innovation approach from SAP comes to the rescue. SAP defines co-innovation as working hand-in-hand with customers to codesign a solution that truly meets your needs and delivers expected value. What sets our co-innovation process apart from other vendors is the customer focus, agility, and completeness of processes and activities supported – from ideation and implementation to product launch and customer success management.

WHY CO-INNOVATE WITH SAP?

SAP's co-innovation process has evolved into a highly effective, comprehensive process that encompasses everything required for the product development and launch process to be successful. As illustrated in Figure 1, this involves the following phases:

- **Phase 1:** The inspiration phase involves thinking about design in order to identify challenges within the market. This is best discussed with experts in a given area and a dedicated sample of end users.
- **Phase 2:** This phase, ideation and implementation, encompasses the main development process. The software is developed through a series of iteration cycles, known as sprints, in which a small number of co-innovation customers codesign the solution and provide feedback at every step in the process.
- **Phase 3:** We engage with a select number of customers as early adopters and test and validate the solution in a live environment, also known as the first customer proof or "success."
- **Phase 4:** The final, go-to-market phase scales the solution to the broader market and drives wider adoption. This benefits those customers who participated in the process, as it helps ensure that your company will have a thriving user community. In addition, your company benefits because SAP will continue to invest in the solution with innovations at least every six months, with increasing levels of maturity.

The end goal is to bring innovation to market more quickly, bring users and developers closer together, and drive adoption by customers.

Let's take a closer look at these phases in more detail – and the best practices SAP uses to help ensure that the final result is a solution that truly meets customer needs.

PHASE 1: CUSTOMER-DRIVEN INSPIRATION

Phase 1 of SAP's co-innovation process is all about inspiration. Traditional R & D processes mean vendors wait to show a solution to customers until it is nearly finished. However, our co-innovation best practice is to involve customers and end



users in a collaborative, iterative solution development process from the very beginning. In other words, we build, test, and evolve solutions together with our customers. This helps ensure that what we develop actually meets customer needs in a way that you will find easy to adopt. We often refer to this process as “design thinking.”

To facilitate design thinking, SAP has incorporated it into the process that supports co-innovation projects, mostly in the early phases. This means we start the development process with the user as the real expert to get better insight into his or her behaviors, needs, and preferences to achieve a person-centric design of our solutions. To capture this input, we collect feedback and knowledge from customers and external experts – people like you who partner with us in the co-innovation process. This can involve an iterative approach that includes:

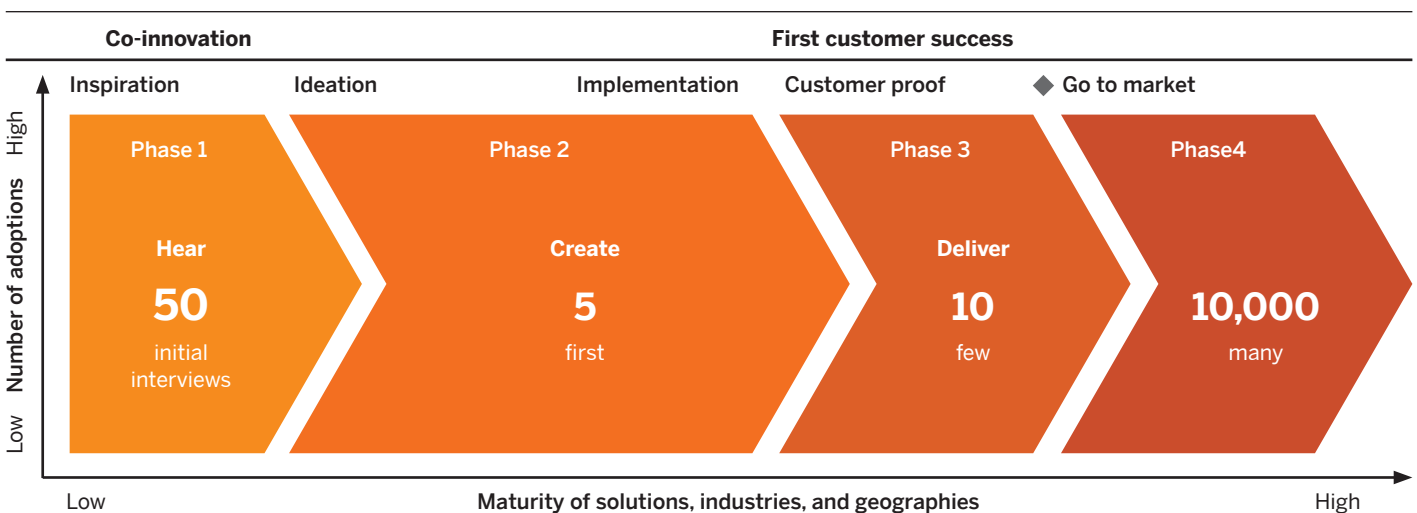
- **Going on-site** – Visiting and talking with a diverse set of customers and executives to assess a broad range of potential requirements
- **Watching and learning** – Observing how work gets done by actual workers without the proposed solution in place
- **Processing and structuring** – Profiling to get a clearer picture of target customers and their priority needs – and ultimately bringing the final co-innovation customer group together

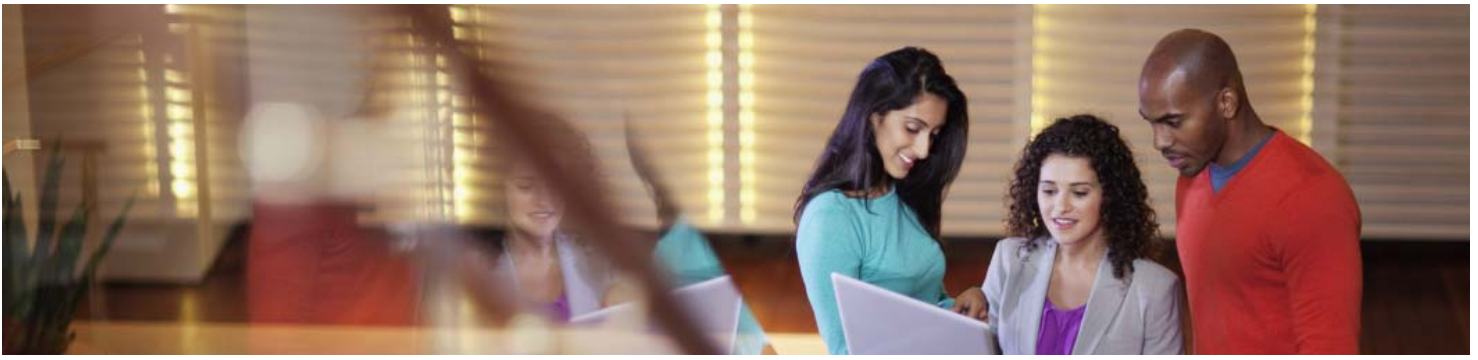
- **Looking ahead** – Brainstorming what the expectations of future users will be and which processes will need to be supported

This approach helps ensure that SAP avoids overfocusing on participants belonging to a specialized department or a certain generation of users while missing others who have important expertise, experience, and needs. The goal is to understand the problems and needs of the end user and get a 360-degree view of everything that could affect the design and implementation of the solution.

The customer-centered inspiration step offers significant benefits for both SAP and our customers participating in the process. By working closely with customers like you to understand your needs and collect your input from the very beginning of the design process, SAP significantly boosts the efficiency and effectiveness of the product development process. For example, we can reduce time to market and cost to market while at the same time enabling a better fit to market. For customers, this approach helps ensure that the solution will fit your needs and solve your problems better than any other solution (because you get to influence what it does). Furthermore, you can access the new software earlier than competitors, which helps your company gain first-mover advantage and supports your goal of being an innovative thought leader in your industry.

Figure 1: The Co-Innovation Process at SAP





PHASE 2: DRIVING IDEATION AND IMPLEMENTATION

The next step in our co-innovation process encompasses these activities:

- **Ideation** – Customer needs and ideas are captured as requirements via workshops with multiple stakeholders. Using interactive visualizations and mock-ups of functionality and processes – which you can create with software tools – helps accelerate this process.
- **Implementation** – Requirements are executed in software code – typically using an iterative development process that involves multiple, small sprints of coding. This way, participants in the co-innovation process can review, approve, and course-correct early in the development process (which is typically when changes cost less to make).

An Emphasis on Lean Thinking

The iterative development approach at SAP is based on what we refer to as “lean thinking,” which at the most basic level means that we eliminate everything that is not ultimately desired by the customer. Lean thinking is also referred to as “lean philosophy.” At the highest level, lean thinking means to do more with less, eliminate waste, and at the same time deliver a product or solution that meets the customer’s requirements and expectations at the highest level possible. Lean thinking can also be viewed as a mind-set regarding how to deliver value to the customer more quickly by finding and eliminating waste.

At SAP, we use one of the lean development models, called “scrum,” which is characterized by:

- A series of short development cycles lasting approximately two to three weeks and ending with working software for review

- An evaluation of the latest working version of the software by the customer (or in our case, the co-innovation partners) so they can provide feedback and offer new requirements that drive the next set of development priorities over the next one to two cycles

This iterative development approach helps ensure that defects are discovered early, that the final software truly meets customer requirements, and that customers don’t have long wait times for access to innovation.

SAP first started to incorporate the ideas of lean thinking into its software development processes within its on-demand team. Figure 2 illustrates how we’ve put lean thinking into action for our on-demand solutions. We adhere to the following principles:

- The customer is tightly integrated into this process by defining the requirements for the software, testing it, and giving important feedback for its further improvement. This enables you to **pull** for the solution you want to have – another principle of lean thinking.
- **Takt** (or sprint, as referred to above) is used in the software development process because development happens over the course of multiple sprints. After each sprint, a working software increment – in the form of a prototype – is presented to the solution team and customers for feedback every four weeks at a minimum.
- Because the customer is intimately involved in the development process, the final solution is more likely to deliver real **value**. This means that it includes the features that are most valuable to you, not extraneous functionality that developers **thought** customers would want. Your continuous feedback encourages development of a product that fits market needs and thus avoids waste such as unnecessary features and functions. Moreover, this approach reduces unnecessary documentation and improper specifications.



Our co-innovation best practice is to involve customers and end users in a collaborative, iterative solution development process from the very beginning. In other words, we build, test, and evolve solutions together with our customers.

PHASE 3: DOCUMENTING CUSTOMER PROOF OF VALUE

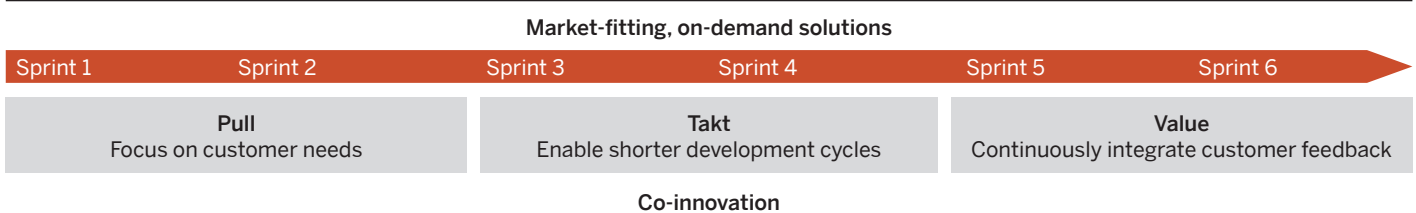
SAP considers a new on-demand solution successful when it's a win-win for SAP and our customers. That's why SAP invests heavily in step 3 in its co-innovation process, during which we document and prove the value of the solution from customers' perspectives and jump-start development of a community of satisfied users. We dedicate the same team of resources throughout the co-innovation process for a given project so that customers participating in the process don't have to move to a new deployment team, for example. Thus, the customer focus is never lost.

In fact, the organizational approach to and necessity for ensuring customer success at an early stage of market entry is fundamentally changing the IT industry – especially in the area of on-demand solutions. This deployment model is experiencing increasing popularity as software “buyers” now rent a service for a limited time period – typically a two- to three-year contract based on a subscription fee per user per month. As a result, barriers to exit are much lower for customers in the new model. In turn, vendors are basically forced to invest in the success of their customers to avoid customer churn.

THINK MOBILE FIRST – AND YOU WILL FOCUS ON THE KEY ASPECTS

One powerful design principle for SAP is known as “mobile first.” That is, if you are restricted in what you can display, as in the case of a mobile phone, you start to focus on the essential. We imagine a solution that can be deployed on a mobile device and iterate from there to a more browser-based solution.

Figure 2: Lean Principles for the On-Demand Solution Development Process at SAP



This means that SAP succeeds only if enough early customers adopt the software and realize expected business value, which is essential to early market success and future mainstream adoption.

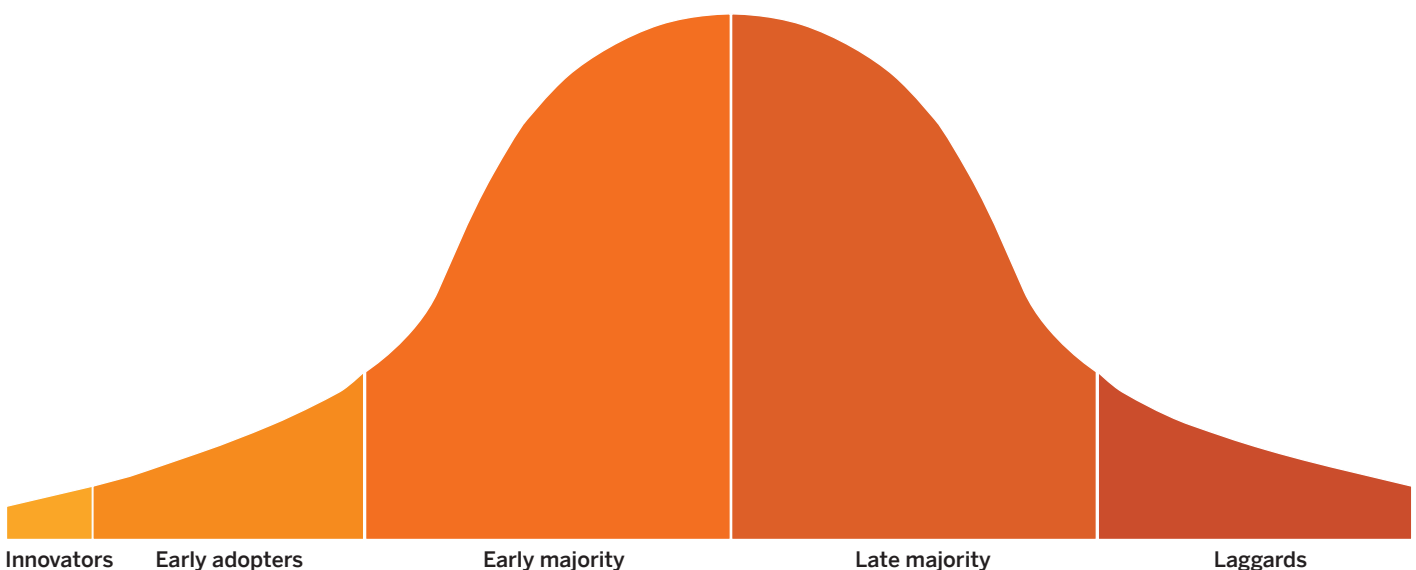
As noted by Geoffrey Moore in his technology innovation marketing bestseller *Crossing the Chasm*, it is critical that high-tech companies focus first on “capturing” those who embrace innovation. Moore advises engaging these customer groups as a reference base before moving on to market to the next group in the technology adoption lifecycle,¹ as illustrated in Figure 3.

Each group has different characteristics:²

- **Innovators** pursue new technology products aggressively. Moore refers to them as the technology enthusiasts. They sometimes seek out innovative products even before a formal marketing program has been formed. This group is therefore a key co-innovation target for SAP.

- **Early adopters**, like innovators, buy into new product concepts very early in the product’s lifecycle, but unlike innovators, they are not technologists. Moore refers to them as visionaries, and they are key to opening up any high-tech market segment, as they do not rely on well-established references or proof. Thus, this group is also a key co-innovation target for SAP.
- The **early majority** are content to wait and see how other people are experiencing the innovation before they buy it themselves. In fact, Moore suggests that for technology innovations, there is a gap, or “chasm,” between the innovator and early adopter groups and the early majority. As a result, referencing activities or testimonials play a significant role in persuading this customer group to adopt new software.
- References are also important for the **late majority** and **laggards** groups that are characterized by a more skeptical attitude toward adopting new technology innovations. Despite the more innovation-averse attitude of these groups, SAP also invites them to participate in co-innovation, as their feedback is essential for developing technology innovations that are in line with mass-market requirements.

Figure 3: Technology Adoption Lifecycle



Source: Geoffrey Moore, *Crossing the Chasm*, 2006



At the highest level, lean thinking means to do more with less, eliminate waste, and at the same time deliver a product or solution that meets the customer's requirements and expectations at the highest level possible.

Consequently, we are counting on your interest in new on-demand innovations from SAP. As shown, investing in documenting proof of value is very important for us. We are convinced that a win-win for SAP and its customers will help build momentum for further growing the solution and the market; we collectively cross the chasm by achieving joint success.

SAP's Approach to Ensuring the First Customer Success

For these reasons, SAP's cooperative co-innovation approach includes proven management best practices for supporting the first customer success. We have an expert team that helps ensure all the pieces for a successful launch are in place. And throughout the process, our "co-innovation customers" are treated and managed like partners further down the product lifecycle – not just during the early ideation and development phases.

During this third phase, SAP concentrates on the first customer deployments. Each deployment involves close collaboration between cross-organizational teams, such as the development organization, the customer onboarding team, sales, and others – all of whom keep customer satisfaction and success as the ultimate goal. As explained more fully in the next section, the most critical team member is the customer engagement manager.

The Customer Engagement Manager

The first customer success phase consists of multiple customer engagements, or projects, that must be managed independently from each other. This makes effective project management critical to success. SAP recommends that each project have two project managers – one from the customer or IT consulting partner and one from SAP, typically the customer engagement manager who acts as the central point of contact. This approach simplifies communications and project execution among all parties, for whom key responsibilities are clearly defined.

Given the degree of product uncertainty in first deployments of new solutions, SAP's product development organization continues to play a decisive role during this phase of the co-innovation process. In fact, product development continues to work together closely with you and assumes responsibility until critical learning and validation from the first customer deployments are available for market scaling. As a result, the role of the customer engagement manager during the first customer successes differs from that of a typical project

FIRST CUSTOMER SUCCESS COMMUNITIES

SAP leverages new social technologies, such as the SAP® StreamWork™ application, to enable close collaboration on projects, as well as market-leading feedback and idea-generation software for efficient collaboration and workflow automation. These technologies support SAP's first customer success community.

manager in a traditional software implementation. Specifically, the customer engagement manager needs to capture customer feedback throughout the process for continuous solution improvement and successful market launch activities. In this way, the customer's needs and ultimate success continue to stay front and center.

As customer engagement managers experience the transformation of customer operations firsthand, they help track and measure the key benefits of customers using new on-demand solutions from SAP. Not only does this strengthen the relationship between SAP and its initial customers but, most important, it helps those customers formulate and quantify their first achievements.

Customer References

The co-innovation team at SAP works closely with marketing to offer a wide variety of comarketing opportunities for early adopters that represent win-win opportunities for both parties. These early referencing activities provide customers with a venue for being acknowledged publicly for their contributions and achievements with regard to the new on-demand software. They also drive processes for measuring and assessing value realized since adopting the new software, which provides insight that can lead to software enhancements and further innovation.

PHASE 4: TAKING THE SOLUTION TO MARKET

After the first customer deployments have been successfully completed, SAP leverages the experience and insight gathered during the first phases of SAP's co-innovation process to make a handover of the solution to the go-to-market team. During this handover, the co-innovation team shares important information, such as the value proposition, customer and usage insights, and first experiences in real environments – insights that help the go-to-market and service teams scale the solution in the market.

Take the Next Step

As you consider which technology partners to collaborate with on the development of new solutions for your business, keep in mind the following questions:

- Is your technology vendor interested in your ideas, requirements, or concerns?
- Do you have a trusted relationship with your technology vendor?
- Do you really collaborate with your technology vendor? In other words, do you receive feedback on your feedback?
- Is there a forum where you can network with peers (if interested)?
- Do you feel that your overall contributions are valued?
- Do you feel that you get something out of your innovation relationship?

To learn more, please visit <http://ondemand.com> and <http://coinnovation.ondemand.com> and sign up for more information.



The organizational approach to and necessity for ensuring customer success at an early stage of market entry is fundamentally changing the IT industry – especially in the area of on-demand solutions.

FOOTNOTES

1. Moore, *Crossing the Chasm*, 2006, p. 14.
2. *Ibid.*, pp. 12–13.



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