Capgemini Consulting

DIGITAL LEADERSHIP

An interview with

Claus von Riegen

Vice President and Head of Business Model Innovation (BMI) at SAP

Innovating at SAP – the Delicate Balance between Incremental and Radical Innovation

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Can you describe SAP's innovation approach?

The majority of today's economic transactions go through an SAP system at some point, so we have an important responsibility to ensure that this infrastructure runs in a seamless and consistent manner and is not disrupted. Therefore, we continuously implement incremental innovations to improve the efficiency and value of this infrastructure.

> " *Innovation ultimately is a delicate balancing act between improving the legacy and driving radical innovations.* "

However, this is not sufficient in itself, and we always have to keep thinking of new types of products, customers, markets and revenue streams. Innovation ultimately is a delicate balancing act between improving the legacy and driving radical innovations. SAP HANA, which currently has more than 6,000 customers, is a good example of a successful, radical technology and business innovation we introduced a few years ago.

What is the role of business model innovation at SAP?

Product innovation on its own is not sufficient, so we are placing increasing emphasis on business model innovation. Actually, we have realized that many new technologies and products can't really take off without a truly new business model. Same is true with our customers - there is, for example, a clear trend towards a digital transformation. Currently, we see CIOs being challenged by their boards. If CIOs don't embrace the transformation, they'll just be "keeping the lights on".

Can you explain how you govern innovation throughout the group?

We have SAP Labs pretty much on all continents. These labs focus mostly on incremental innovation – their mission is to concentrate on the standard portfolio and the new versions of our products by co-innovating with our customers and partners.

> " *Many new technologies and products can't really take off without a truly new business model.* "

Independent from the standard development organization, we have our innovation center network. It focuses on mid- to long-term research and innovation. These innovation centers are very open to the outside world and tap into the ecosystem of startups and academics.

Why did you decide to have a separate innovation center network?

We started our innovation center network a few years ago. Innovation was obviously happening at SAP in the past, but it wasn't structured that way. What we have seen over the years is that it's really important to keep incremental and radical innovation separate. The investment horizon is completely different and you need different resources, different partners and a different environment. The application of SAP HANA in healthcare, especially in the treatment of cancer, is a good example of a long-term play that would have not been considered part of our standard portfolio in the past. People in the innovation center network should feel that they have a long-term horizon to develop breakthrough innovations and not feel like they have to move to a different project every six months.

If you want to be successful in both core and disruptive innovation, you have to keep them separate organizationally.

> " *It's really important to keep incremental and radical innovation separate.* "

Your team looks at business model innovation specifically. Can you give us some background into its creation?

We created this team around 2.5 years ago. One of the reasons we started it was because people with great ideas ran into what you might call corporate boundaries. There were many challenges: the types of legal contracts we accept, the types of revenues we want to generate, the types of licensing agreements we have in place, among others. What we saw was that even when a great idea emerges, the corporate 'immune system' tries to prevent innovation from happening. The reason for that is clear. The organization is currently set up to protect and optimize the current business model. So that's why we created this team with an explicit mandate to amend or sometimes even disrupt our current business model.

Is the business model innovation service center a fully dedicated team or do you have people from across the organization who dedicate part of their time?

Our team is mostly virtual – we rely extensively on local organizations and teams and work with them virtually on innovative business models. When we created the team, we thought about whether we should create a large central organization. It may have worked quite well at the start, but domain expertise is lost over time because a lot of innovation also occurs at the local level. Obviously, the challenge now is to make sure that our virtual team members are able to dedicate enough time to our work because they all have their day jobs.

The intrapreneurship program is the right channel for out-of-the-box ideas: innovations that would not be considered part of our current product portfolio development. We have recently selected five winners out of more than 400 cases that were assessed as part of the first wave of the program. The people

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behind these ideas can now go into a fellowship that runs over three months, and dedicate up to 100% of their time to further validate their idea. We believe it needs to be these people, who are behind the idea and really believe in its value, who then also need to validate it and demonstrate its potential in front of customers.

How do you establish a link between the innovation teams and the rest of the organization?

It's been one of my key priorities for the past 2.5 years. After we established my team in early 2013, we have always focused on building bridges with the rest of the organization. We now work very closely with our sales teams, our support and services units, the development organization and obviously our partner organization. By creating strong connections with the business early on, we have realized that we can create more value faster.

How do you measure the outcome of your innovation initiatives?

There are a number of parameters. The most important one is the satisfaction of my internal customers, that is, the teams and their sponsors who want to drive new business models. That's the first and foremost KPI. I need satisfied customers and success stories so that we can get more traction with other parts of the business.

Another key parameter is the number of cases that we support in the team. We need to demonstrate that SAP overall becomes more innovative and agile. The last KPI that we use is the commercial success of the innovations we have delivered. Sometimes we only see the revenue opportunity materialize after a period of two to three years. In such cases, it can be challenging for me and my team to be measured by such KPIs. But still, this is something that we track.

What would be your advice for other large organizations?

First, I think it is important not to just think about product innovation; you always need to rethink your business model. Eventually it is the business model that will determine whether you are commercially successful.

> *Disrupt yourself before being disrupted by others. But to make this happen, you have to create a separate team with the explicit mandate to disrupt the business and make it a priority.*

SAP

74% of the world's transaction revenue touches an SAP system

SAP's customers include **98%** of the 100 most valued brands and **87%** of Forbes Global 2000

SAP is a leading cloud vendor with **82 million** subscribers and a market leader for mobile business apps with over **130 million** mobile users

Innovating at SAP

HANA is a good example of a successful radical innovation – now has **over 6,000 customers, 850,000 active users** and **2,100 startups** developing on HANA platform

SAP's innovation footprint

21 research locations

14 SAP Labs around the globe – focus on a standard portfolio and the new versions of products by co-innovating with customers and partners

Partner network with over **13,000 SAP partner companies** around the world

Sapphire Ventures, operates independently from SAP, invested in **over 150 startups** globally since 1996, with **US$ 1.4 bn** capital under management

Second, you need to understand when to adapt your business model. You need to be constantly on the lookout for any leading indicators or trends in the market that could indicate that you have to revamp your business model.

Third, disrupt yourself before being disrupted by others. But to make this happen, you have to create a separate team with the explicit mandate to disrupt the business and make it a priority. Otherwise, this team will be fought against and be killed in the corporate battlefield.

How can your team work around the 'immune system' that tries to thwart innovation?

Let me give you an example. A number of teams have proposed that SAP leverage the value of the data that flows through our applications and networks. The idea is that SAP should move into the data business and eventually anonymize, aggregate and analyze data. And through such an aggregation, we can then provide services to our customers that weren't possible before. For example, as a chief procurement officer you would then be able to manage your

spend based on benchmarks you get across your industry. Now, if you raise this idea, the first thing that many people will ask – which is part of the corporate immune system – is: 'how can we comply with all the data protection and privacy regulations?' Others would say, 'good luck, but we will never support

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you, and the SAP board has no interest to move into the data business'. And the idea would soon be shelved.

However, with the arrival of our team – the business model innovation service center – we can make a case, and try to find a middle ground. We might see whether we could start in markets where we can comply with data protection and

privacy regulations. We can then launch some pilots and, if customers accept and trust the security and usefulness of our solution, we can consider rolling it out in other markets. The business model innovation center effectively provides an environment that lets in-house entrepreneurs experiment with new types of business models until their market readiness is proven.

What are the other channels of innovation within SAP?

Innovation is not solely steered centrally – anyone can voice new ideas. But it creates the obvious challenge of prioritization as we are a large group of over 75,000 employees. We have an environment that we created last year called the intrapreneurship program. The idea is to leverage all the great ideas about new products and value propositions directly from our employees. We have a set of coaches who help employees formulate their ideas and jury members who assess and evaluate these ideas to eventually pick those which we as a company want to invest into.

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Claus von Riegen is Vice President and Head of Business Model Innovation (BMI) at SAP. He chairs the BMI Service Center that designs and implements new business models across the organization. Previously, Claus von Riegen held various management positions in product development where he most recently was responsible for SAP's industry standards and open source strategy. Capgemini Consulting spoke with him to understand how a large organization such as SAP manages innovation.

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