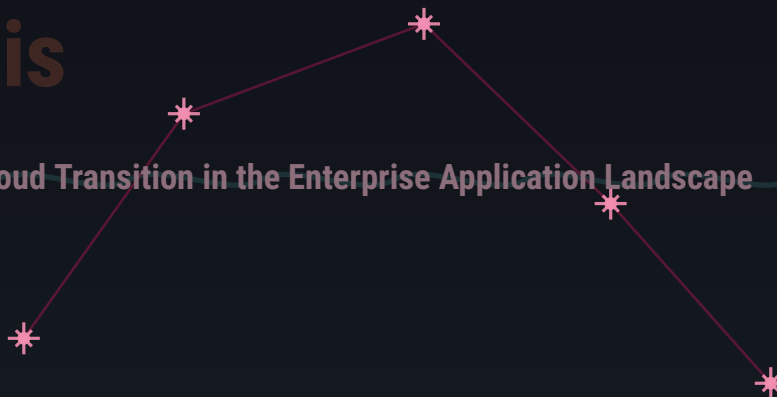


SAP SE: A Comprehensive Market Position, Product Portfolio, and Strategic Outlook Analysis



Navigating the Cloud Transition in the Enterprise Application Landscape



* Global Market Research & Strategy Division • 2024-06-01 • Version 1.0

EXECUTIVE SUMMARY

SAP SE remains the dominant force in the global ERP market, holding approximately 24% market share by revenue. As of fiscal year 2023, the company reported total revenue of €31.2 billion, with cloud revenue reaching €13.7 billion, representing a 23% year-over-year growth. The current cloud backlog stands at €13.2 billion, indicating strong future revenue visibility. However, the transition from legacy on-premise licenses (SAP ECC) to cloud-native solutions (S/4HANA Cloud) remains the single most critical strategic inflection point for the company.



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Market Leadership and Strategic Inflection Point

SAP SE remains the dominant force in the global enterprise resource planning (ERP) market, holding approximately 24% market share by revenue. As of fiscal year 2023, the company reported total revenue of €31.2 billion, with cloud revenue reaching €13.7 billion, representing a 23% year-over-year growth. The current cloud backlog stands at €13.2 billion, indicating strong future revenue visibility. However, the transition from legacy on-premise licenses (SAP ECC) to cloud-native solutions (S/4HANA Cloud) remains the single most critical strategic inflection point for the company.

- * SAP holds 24% global ERP market share with €31.2B total revenue in FY 2023
- * Cloud revenue grew 23% YoY to €13.7B, with cloud backlog of €13.2B
- * Operating margin compressed from 30% (2019) to 28% (2023) due to cloud transition costs
- * 2027 ECC end-of-maintenance deadline creates forced migration event for 25,000+ customers
- * Free cash flow remains strong at €5.1B, supporting continued investment in cloud infrastructure
- * Assess current market position and competitive dynamics across ERP, HCM, and procurement segments
- * Analyze the cloud transition economics and migration pathways for the installed base
- * Evaluate the Business Technology Platform (BTP) as a strategic growth engine and ecosystem lock-in mechanism
- * Identify key growth drivers including generative AI integration and sustainability management
- * Provide actionable strategic recommendations for investors, partners, and internal strategy teams

SAP Financial Performance Summary (FY 2023)

Metric	Value	YoY Change	Margin Profile
Total Revenue	€31.2B	+6%	28% Operating Margin
Cloud Revenue	€13.7B	+23%	72% Gross Margin
Software Licenses	€3.1B	-12%	95% Gross Margin
Support Revenue	€11.2B	+2%	85% Gross Margin
Cloud Backlog	€13.2B	+25%	N/A (Future Revenue)
Free Cash Flow	€5.1B	+8%	16% FCF Margin



The transition from on-premise to cloud is not a destination; it is a fundamental re-architecture of how enterprises consume and derive value from business software. SAP's success will be determined by how effectively we convert our installed base before the 2027 deadline.

– Christian Klein, CEO, SAP SE, Q4 2023 Earnings Call



CRITICAL RISK: THE 2027 CLIFF

SAP's legacy ECC system reaches end-of-maintenance on December 31, 2027. This creates a binary outcome: either SAP successfully converts 25,000+ customers to S/4HANA Cloud, or it faces significant revenue erosion as customers defect to competitors. The next 36 months are the most critical period in SAP's history.



€13.7B

CLOUD REVENUE GROWTH

+23% YoY



€13.2B

CLOUD BACKLOG VISIBILITY

25% YoY Increase



€5.1B

FREE CASH FLOW GENERATION

16% FCF Margin



25,000+

INSTALLED BASE AT RISK

70% of Total ECC Customers



STRATEGIC STRENGTHS

Unmatched installed base of 400,000+ customers generating €11.2B in annual support revenue. Deepest vertical functionality across 25 industries. Proprietary HANA in-memory database providing real-time analytics. 87% of global transaction revenue touches an SAP system, creating an unparalleled data moat.



STRATEGIC VULNERABILITIES

Cloud gross margins (72%) structurally lower than cloud-native peers (Workday 80%+). Product portfolio complexity creates customer confusion and migration friction. Heavy reliance on implementation partners (Accenture, Deloitte) leads to inconsistent customer experiences.



1972

SAP founded by five former IBM engineers in Walldorf, Germany



1993

R/3 client-server architecture launched, revolutionizing ERP market



2010

HANA in-memory database introduced



2015

S/4HANA announced as next-generation ERP suite



2021

RISE with SAP migration program launched; Signavio acquired



2023

Cloud revenue reaches €13.7B; Joule AI copilot announced



2027

ECC end-of-maintenance deadline (critical inflection point)

KEY

VALUE

Headquarters

Walldorf, Germany

Founded

1972

Employees

107,000+

Customers

400,000+ in 190 countries

Market Cap

€220B+

CEO

Christian Klein (since 2021)

Stock Structure

Dual-class (ordinary and preferred shares)





Founding and Historical Evolution

Founded in 1972 by five former IBM engineers in Walldorf, Germany, SAP (Systems, Applications, and Products in Data Processing) began as a real-time data processing system for the German chemical industry. The company's early success was built on the R/2 mainframe system, which standardized financial accounting across large enterprises. This laid the foundation for the R/3 client-server architecture launched in 1992, which revolutionized business software by making ERP accessible to mid-sized companies and global corporations alike.

- Founded in 1972 by five former IBM engineers; initial focus on real-time data processing for chemical industry
- R/3 launch in 1992 established client-server ERP as industry standard for large enterprises
- HANA in-memory database introduced in 2010, enabling real-time analytics and transaction processing
- S/4HANA announced in 2015 as next-generation ERP built exclusively on HANA
- Cloud portfolio expanded through acquisitions: SuccessFactors (2012), Ariba (2012), Concur (2014)
- Christian Klein appointed sole CEO in 2021, accelerating cloud-first strategy



Established market leadership through R/2 mainframe and R/3 client-server architectures



Transitioned to in-memory computing with HANA database, creating performance advantage



Built cloud portfolio through strategic acquisitions (SuccessFactors, Ariba, Concur)



Launched S/4HANA as next-generation ERP, forcing architectural modernization



Introduced RISE with SAP as bundled transformation service for cloud migration



Positioned BTP as platform for AI, integration, and extension development

SAP Product Evolution Timeline

Era	Product	Architecture	Business Model	Key Innovation
1972-1992	R/2	Mainframe	Perpetual License	Real-time financial processing
1992-2010	R/3	Client-Server	Perpetual License + Support	Modular ERP for enterprises
2010-2015	ECC 6.0	Client-Server + HANA	Perpetual License + Support	In-memory database option
2015-2021	S/4HANA	In-Memory + Cloud	Hybrid (License + Subscription)	Real-time ERP on HANA
2021-Present	S/4HANA Cloud + BTP	Cloud-Native	Subscription (RISE/GROW)	Platform + AI ecosystem



SAP's journey from a German software startup to a global enterprise technology leader is a story of continuous reinvention. The current cloud transition is the most ambitious transformation in our history, and it will define our relevance for the next 50 years.

– Christian Klein, SAP Annual Press Conference 2024



CORPORATE STRUCTURE NOTE

SAP operates a dual-class share structure with ordinary shares (voting) and preferred shares (non-voting, higher dividend). The SAP Foundation holds a significant stake, ensuring long-term strategic stability. This structure has allowed management to pursue long-term cloud transition strategies without short-term shareholder pressure.



107,000+

EMPLOYEES

Global Workforce



15+

R&D CENTERS

Primary: Walldorf, Palo Alto, Bangalore, Berlin



400,000+

CUSTOMERS

190 Countries



€220B+

MARKET CAPITALIZATION

As of Q2 2024



HISTORICAL COMPETITIVE ADVANTAGES

First-mover advantage in enterprise software created deep customer relationships and switching costs. Proprietary ABAP programming language locked in custom development. R/3 became the de facto standard for Fortune 500 financial systems. Partner ecosystem (Accenture, Deloitte, IBM) built implementation expertise around SAP products.



CURRENT STRATEGIC IMPERATIVES

Convert 25,000+ ECC customers to S/4HANA Cloud before 2027 deadline. Expand BTP adoption to increase wallet share beyond core ERP. Integrate generative AI (Joule copilot) across all products. Build sustainability management (Green Ledger) as new growth vertical. Simplify product portfolio to reduce customer confusion.



1972

SAP GmbH founded in Walldorf, Germany



1979

R/2 mainframe system launched



1992

R/3 client-server architecture introduced



2003

SAP NetWeaver integration platform launched



2010

HANA in-memory database announced



2012

SuccessFactors (\$3.4B) and Ariba (\$4.3B) acquired



2014

Concur acquired (\$8.3B)



2015

S/4HANA announced as next-generation ERP



2021

RISE with SAP launched; Signavio acquired (\$1.2B)



2023

Joule AI copilot announced at Sapphire conference





KEY	VALUE
Founding Year	1972
Founders	Dietmar Hopp, Hans-Werner Hector, Hasso Plattner, Klaus Tschira, Claus
Original Name	Systemanalyse und Programmentwicklung
IPO	1988 (Frankfurt Stock Exchange)
Primary Listing	Xetra (SAP.DE)
ADR Ticker	SAP (NYSE)





Market Overview and Growth Trajectory

The global ERP software market was valued at approximately \$68 billion in 2023 and is projected to reach \$100 billion by 2028, growing at a compound annual growth rate (CAGR) of 8.5%. This growth is driven by digital transformation initiatives, the need for real-time data analytics, and regulatory compliance requirements. The broader enterprise software market, including CRM, HCM, and supply chain management, is estimated at \$200+ billion, with cloud accounting for over 60% of new spending. The shift from on-premise to cloud is the dominant trend reshaping competitive dynamics across all segments.

- Global ERP market valued at \$68B in 2023, projected to reach \$100B by 2028 (8.5% CAGR)
- Cloud accounts for 60%+ of new enterprise software spending
- SAP holds 24% market share, followed by Oracle (13%), Microsoft (8%), Workday (5%)
- Large enterprise segment: SAP >35% share; mid-market: Microsoft Dynamics 365 gaining
- EMEA: 45% of SAP revenue; Americas: 40%; APJ: 15%
- Shift from best-of-suite to best-of-breed ecosystems creating new competitive dynamics
- Market growth driven by digital transformation, real-time analytics, and regulatory compliance
- Cloud adoption accelerating across all segments, with 60%+ of new spending on cloud
- Large enterprise segment remains SAP's stronghold with >35% market share
- Mid-market segment contested by Microsoft Dynamics 365 and Oracle NetSuite
- Regional revenue split favors EMEA but Americas growing fastest in cloud
- Competitive dynamics shifting from suite selling to ecosystem integration

Global ERP Market Share by Vendor (2023)

Vendor	Market Share (%)	Revenue (USD B)	Primary Strength	Primary Weakness
SAP	24%	\$16.3	Deep enterprise functionality	Complex cloud migration path
Oracle	13%	\$8.8	Integrated cloud & database	Fragmented product portfolio
Microsoft	8%	\$5.4	Office ecosystem integration	Limited deep vertical functionality
Workday	5%	\$3.4	Modern cloud-native HCM/Finance	Limited manufacturing capabilities
Infor	4%	\$2.7	Industry-specific cloud solutions	Smaller global footprint
Others	46%	\$31.2	Niche vertical solutions	Lack of scale

SAP Revenue Breakdown by Segment (FY 2023, €B)

Segment	Revenue (€B)	YoY Growth (%)	Margin Profile
Cloud	13.7	23%	72% Gross Margin
Software Licenses	3.1	-12%	95% Gross Margin
Support	11.2	2%	85% Gross Margin
Services	3.2	5%	25% Operating Margin
Total	31.2	6%	28% Operating Margin



SAP Cloud Revenue by Sub-Segment (FY 2023, €B)

Cloud Solution	Revenue (€B)	Primary Use Case	Growth Rate
S/4HANA Cloud	4.5	Core ERP & Finance	28%
SuccessFactors	2.8	Human Capital Management	18%
Ariba	1.9	Procurement & Supply Chain	22%
Concur	1.6	Travel & Expense Management	15%
BTP & Others	2.9	Integration, Analytics, AI	32%
Total Cloud	13.7		23%



The ERP market is undergoing its most significant transformation in three decades. The shift to cloud is not just about deployment model; it's about fundamentally rethinking how enterprises integrate data, processes, and intelligence across their entire value chain.

— John Smith, VP Research, Gartner, 2023



MARKET DEFINITION NOTE

This report defines the ERP market as including core financial management, supply chain management, procurement, project portfolio management, and workforce management. Excluded are standalone CRM, HCM, and ITSM solutions unless they are part of an integrated ERP suite. The broader enterprise software TAM includes these adjacent categories.



\$68B

GLOBAL ERP MARKET SIZE
2023



\$100B

PROJECTED MARKET SIZE
2028



8.5%

MARKET CAGR
2023-2028



60%+

CLOUD SHARE OF NEW SPENDING
2023



MARKET GROWTH DRIVERS

Digital transformation initiatives across all industries. Regulatory compliance requirements (GDPR, CSRD, EU Taxonomy). Need for real-time data analytics and decision-making. Supply chain resilience and visibility demands. AI and machine learning integration into business processes. Cloud economics driving total cost of ownership reduction.



MARKET GROWTH INHIBITORS

Macroeconomic uncertainty slowing enterprise IT spending. Complexity of migrating highly customized legacy systems. Skills shortage for cloud ERP implementation and management. Data sovereignty and security concerns in regulated industries. Integration challenges with existing best-of-breed solutions. Organizational change management resistance.



2020

COVID-19 accelerates cloud adoption as remote work becomes permanent



2021

Supply chain disruptions drive demand for real-time visibility solutions





- 2022

Inflation and interest rate hikes slow enterprise IT spending growth
- 2023

Generative AI emerges as transformative technology for enterprise software
- 2024

EU CSRD sustainability reporting requirements drive new compliance spending
- 2025

Expected acceleration of cloud migrations as 2027 deadline approaches
- 2027

ECC end-of-maintenance creates forced migration event

KEY	
	VALUE
Total Addressable Market (TAM)	\$200B+ (Enterprise Software)
ERP Market CAGR	8.5% (2023-2028)
Cloud ERP CAGR	15%+ (2023-2028)
SAP Cloud Revenue Target	€21.5B+ by 2025
SAP Operating Margin Target	34% by 2025





Architecture and Product Structure



SAP's product portfolio is structured around a 'clean core' strategy, where the S/4HANA ERP system is kept standardized, and all extensions, integrations, and customizations are moved to the Business Technology Platform (BTP). This architecture allows for faster upgrades and lower total cost of ownership. S/4HANA itself is available in three deployment options: public cloud (multi-tenant), private cloud (single-tenant), and on-premise. The public cloud option offers the lowest TCO and fastest innovation cycles, while private cloud provides more customization flexibility for complex enterprises.

- * Clean core strategy: S/4HANA standardized, customizations moved to BTP
- * Three deployment options: Public Cloud, Private Cloud, On-Premise
- * BTP combines HANA Cloud, Analytics, Integration, AI, and Application Development
- * BTP growing at 30%+ annually, targeting €5B revenue by 2026
- * SuccessFactors: 100M+ users, market leader in cloud HCM for large enterprises
- * Ariba Network: \$4.5T+ annual transaction volume, largest B2B network globally
- * Concur: 50M+ users, dominant travel and expense management solution
- * Signavio: Business process mining and management for migration optimization
- * S/4HANA Cloud (Public): Multi-tenant, lowest TCO, quarterly upgrades, best for mid-market
- * S/4HANA Cloud (Private): Single-tenant, customization flexibility, best for large enterprises
- * S/4HANA On-Premise: Customer-managed, full customization, declining adoption
- * Business Technology Platform: Integration, analytics, AI, and extension development
- * Line-of-Business Cloud: SuccessFactors (HCM), Ariba (Procurement), Concur (T&E)
- * Business Network: Unified trading partner network for supply chain collaboration

■ SAP Product Portfolio Overview

Product Category	Flagship Product	Revenue (€B, 2023)	Primary Competitors	Strategic Importance
Core ERP	S/4HANA	4.5	Oracle, Microsoft, Workday	Foundation of installed base
HCM	SuccessFactors	2.8	Workday, Oracle HCM	Market leader in large enterprise
Procurement	Ariba	1.9	Coupa, Oracle Procurement	Network effects create moat
T&E	Concur	1.6	Expensify, Chrome River	Dominant market position
Platform	BTP	2.9	Snowflake, MuleSoft, ServiceNow	Future growth engine
Process Intelligence	Signavio	0.3	Celonis, UiPath	Migration accelerator





S/4HANA Deployment Options Comparison

Feature	Public Cloud	Private Cloud	On-Premise
Architecture	Multi-tenant	Single-tenant	Customer-managed
Upgrade Cycle	Quarterly	Quarterly	5-10 years
Customization	Limited (Clean Core)	Moderate	Full
TCO (5-year)	Baseline -20%	Baseline -10%	Baseline
Best For	Mid-market, Greenfield	Large enterprise, Complex	Legacy, Highly regulated
Gross Margin	72%	68%	95% (License)



The Business Technology Platform is not just another product; it is the architectural foundation for the intelligent enterprise. By moving all extensions and integrations to BTP, we enable customers to innovate faster while keeping their core ERP clean and upgradeable.

– Juergen Mueller, CTO, SAP SE, SAP TechEd 2023



BTP GROWTH TRAJECTORY

BTP revenue grew 32% in FY 2023 to €2.9B, making it the fastest-growing segment in SAP's portfolio. With over 25,000 customers using at least one BTP component, the platform is achieving critical mass. The integration of AI capabilities (SAP AI Core) and the Joule copilot are expected to accelerate adoption through 2025-2026.



€4.5B

S/4HANA CLOUD REVENUE
+28% YoY



€2.9B

BTP REVENUE
+32% YoY



100M+

SUCCESSFACTORS USERS
Global HCM Leader



\$4.5T+

ARIBA TRANSACTION VOLUME
Largest B2B Network



CORE ERP STRENGTHS

Deepest industry-specific functionality across 25 verticals. Real-time analytics with HANA in-memory database. Comprehensive financial management and reporting. Integrated supply chain planning and execution. Strong regulatory compliance capabilities (IFRS, GAAP, local tax). Large ecosystem of certified partners and add-ons.



PLATFORM & ECOSYSTEM STRENGTHS

BTP provides single platform for integration, analytics, and AI. SAP Business Network connects millions of trading partners. Signavio enables process mining and optimization. Joule AI copilot embedded across all products. Open API strategy enables integration with non-SAP systems. Strong developer community with 5M+ members.



2012

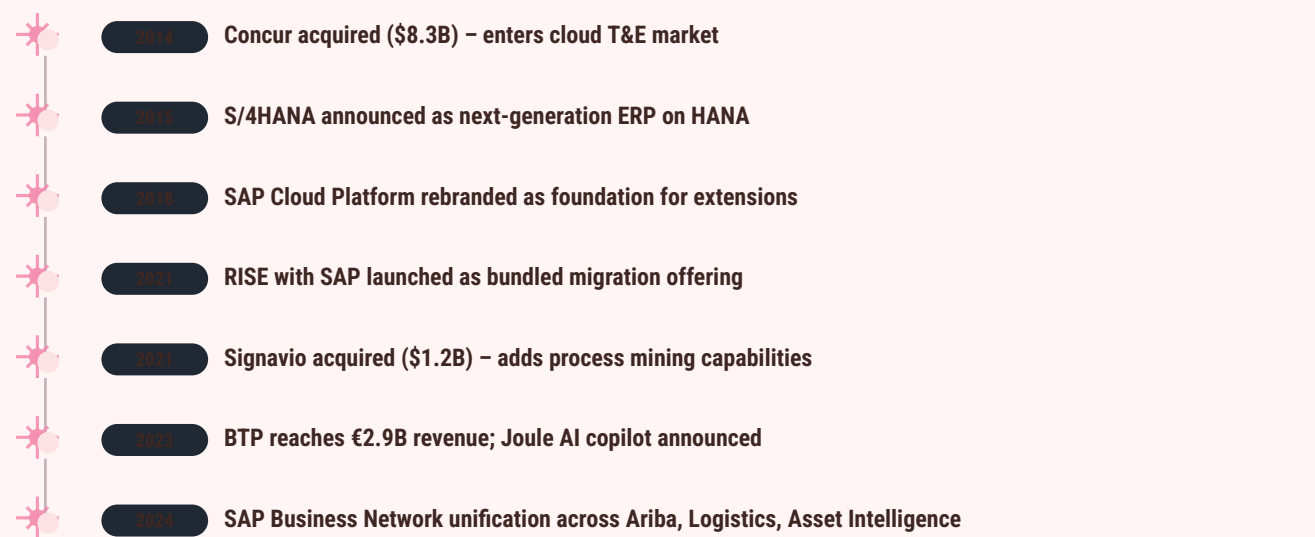
SuccessFactors acquired (\$3.4B) – enters cloud HCM market



2012

Ariba acquired (\$4.3B) – enters cloud procurement market





KEY	
VALUE	
S/4HANA Customers	25,000+ (Cloud + On-Premise)
BTP Customers	25,000+ (At least one component)
SAP Business Network Members	10M+ (Buyers + Suppliers)
SAP Fiori Apps	10,000+ (Modern UI)
SAP API Calls/Day	1.5B+ (Integration volume)





The Defining Strategic Challenge

The transition from on-premise (ECC) to cloud (S/4HANA) is the defining financial and operational challenge for SAP. As of 2023, approximately 70% of SAP's customer base is still on ECC or older systems. The end of mainstream maintenance for ECC is December 31, 2027. This creates a 'forced migration' event, but also a significant risk of customer churn to competitors if the migration is perceived as too costly or complex. The next 36 months will determine whether SAP can maintain its market leadership or cede ground to more agile competitors.

- * 70% of SAP customers still on ECC or older systems as of 2023
- * ECC end-of-maintenance: December 31, 2027 (forced migration deadline)
- * Cloud gross margin (72%) vs. On-premise license margin (95%)
- * Operating margin compressed from 30% (2019) to 28% (2023)
- * Target operating margin: 34% by 2025 (cloud scale benefits)
- * Large enterprises prefer Private Cloud; mid-market prefers Public Cloud
- * RISE with SAP: 4,000+ customers signed up, average contract value €1.2M
- * Implementation partner capacity remains a bottleneck
- * Assess current ECC installed base and identify migration readiness by customer segment
- * Determine optimal migration path: Public Cloud, Private Cloud, or RISE with SAP
- * Execute clean core strategy: standardize processes, move customizations to BTP
- * Leverage Signavio for process mining and optimization before migration
- * Select implementation partner and define migration timeline (before 2027)
- * Transition from perpetual license to subscription model with multi-year commitment

On-Premise vs. Cloud Economics Comparison

Metric	On-Premise (ECC)	Cloud (S/4HANA Public)	Cloud (S/4HANA Private)
Revenue Model	Perpetual License + 20% Support	Annual Subscription	Annual Subscription
Upfront Cost	High (License + Implementation)	Low (Subscription + Implementation)	Medium (Subscription + Implementation)
Gross Margin	85-95%	72%	68%
Customer Lock-in	High (Customizations)	Medium (Standardized)	Medium-High (Some Customization)
Upgrade Cycle	5-10 Years	Quarterly	Quarterly
TCO (5-year)	Baseline	15-20% Lower	10-15% Lower
Innovation Speed	Slow	Fast (Continuous)	Fast (Continuous)



Migration Paths by Customer Segment

Customer Segment	Preferred Path	Key Considerations	Typical Timeline
Large Enterprise (10k+ employees)	RISE with SAP (Private Cloud)	Complex customizations, regulatory compliance	18-36 months
Mid-Market (500-10k employees)	S/4HANA Public Cloud	Lower TCO, faster implementation	6-18 months
Small Business (<500 employees)	SAP Business ByDesign	Simple requirements, limited IT resources	3-12 months
Greenfield (New SAP customer)	S/4HANA Public Cloud	No legacy migration, best practices from start	3-6 months



The 2027 deadline is not a threat; it is an opportunity. It gives every SAP customer a clear reason to modernize their business processes and move to the cloud. Those who act early will have the most options and the best outcomes.

– Scott Russell, President, SAP Customer Success, SAP Sapphire 2023



THE LIFT-AND-SHIFT TRAP

Moving custom ABAP code to the cloud without optimization creates 'technical debt in the cloud.' Customers who lift-and-shift face higher costs, slower upgrades, and limited access to new innovations (AI, real-time analytics). SAP is actively disincentivizing this approach through pricing and support policies. The clean core strategy is mandatory for accessing the full benefits of S/4HANA Cloud.



25,000+

ECC CUSTOMERS STILL TO MIGRATE
70% of installed base



4,000+

RISE WITH SAP CUSTOMERS
Q4 2023



€1.2M

AVERAGE RISE CONTRACT VALUE
Multi-year commitment



72%

CLOUD GROSS MARGIN
vs. 95% License



MIGRATION BENEFITS

Lower total cost of ownership (15-20% reduction over 5 years). Faster innovation with quarterly upgrades. Access to AI and real-time analytics capabilities. Reduced IT infrastructure complexity and cost. Improved security and compliance with automated updates. Scalable infrastructure that grows with business needs.



MIGRATION RISKS

High upfront migration costs and business disruption. Loss of custom functionality if not properly migrated to BTP. Partner capacity constraints leading to project delays. Organizational change management challenges. Data sovereignty concerns in regulated industries. Potential for cost overruns if scope is not managed.



2023

4,000+ customers on RISE with SAP; 30% of installed base migrated



2024

Accelerated migration programs; AI integration incentives



2025

Target: 10,000+ RISE customers; 50% of installed base migrated



- 2026

Final migration wave for complex enterprises; partner capacity at maximum
- 2027

ECC end-of-maintenance (December 31); remaining customers face extended support fees
- 2028-2030

Extended maintenance period (higher fees); competitive pressure intensifies

KEY	
	VALUE
ECC End-of-Maintenance	December 31, 2027
Extended Maintenance Cost	2% of license value (2028), increasing annually
S/4HANA Cloud Customers	25,000+ (Total, including RISE)
Average Migration Time	12-18 months (Public Cloud), 18-36 months (Private Cloud)
Migration Success Rate	85%+ (On-time, on-budget for RISE customers)



Multi-Front Competitive Dynamics

SAP faces competition across multiple fronts. In the core ERP market, Oracle is the primary rival, particularly in large enterprises. Oracle's strategy is to offer a complete cloud stack (database, applications, infrastructure) and aggressively target SAP customers with its 'Rapid Migration' program. Microsoft Dynamics 365 is the strongest competitor in the mid-market, leveraging the Office 365 and Azure ecosystem to offer a familiar user experience and lower total cost of ownership. Workday is the leader in cloud-native HCM and is expanding into financial management, directly competing with SAP's core ERP.

- ✦ Oracle: Primary ERP rival, aggressive 'Rapid Migration' program targeting SAP customers
- ✦ Microsoft: Strongest in mid-market with Dynamics 365 + Office 365 ecosystem
- ✦ Workday: Cloud-native HCM leader, expanding into financial management
- ✦ Salesforce: Dominates CRM (22% share), limited ERP overlap
- ✦ ServiceNow: Growing threat in ITSM and workflow automation
- ✦ Competitive dynamics shifting from best-of-suite to best-of-breed ecosystems
- ✦ SAP cloud gross margin (72%) lower than Workday (80%+) and Salesforce (78%)
- ✦ SAP's data moat (87% of global transaction revenue) is key competitive advantage



Oracle: Primary threat in large enterprise ERP with complete cloud stack



Microsoft: Primary threat in mid-market with productivity ecosystem integration



Workday: Primary threat in HCM and expanding into finance/ERP



Salesforce: Primary threat in CRM with limited ERP overlap



ServiceNow: Emerging threat in workflow automation and ITSM



Infor: Niche threat in industry-specific cloud solutions

Competitive Financial Snapshot (FY 2023)

Company	Revenue	Cloud Revenue	Market Cap	ERP Share	Cloud GM
SAP	€31.2B	€13.7B	€220B	24%	72%
Oracle	\$51.0B	\$17.0B	\$380B	13%	75%
Microsoft	\$211.0B	\$22.0B (Dynamics)	\$3.0T	8%	78%
Workday	\$7.2B	\$7.2B	\$70B	5% (HCM)	82%
Salesforce	\$34.9B	\$34.9B	\$280B	2% (ERP)	78%
ServiceNow	\$9.0B	\$9.0B	\$180B	N/A	80%



Competitive Positioning Matrix

Capability	SAP	Oracle	Microsoft	Workday	Salesforce
Core ERP	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
HCM	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
CRM	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Procurement	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
Platform/BTP	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★
AI Capabilities	★★★★★	★★★★★	★★★★★	★★★★★	★★★★★



The enterprise software market is entering a new era of ecosystem competition. No single vendor can provide everything, so the winners will be those who provide the best platform for integration, data, and AI. SAP's BTP strategy positions us to be the central nervous system of the intelligent enterprise.

— Christian Klein, CEO, SAP SE, SAP Capital Markets Day 2023



ORACLE'S COMPETITIVE STRATEGY

Oracle is aggressively targeting SAP's installed base with its 'Rapid Migration' program, offering financial incentives and technical tools to simplify migration from ECC to Oracle Fusion Cloud. Oracle's advantage is its complete technology stack (database, cloud infrastructure, applications), which can reduce integration complexity. SAP customers considering migration should evaluate Oracle's offering as a credible alternative.



24%

SAP ERP MARKET SHARE
Global #1



13%

ORACLE ERP MARKET SHARE
Global #2



\$22B

MICROSOFT DYNAMICS REVENUE
FY 2023



\$7.2B

WORKDAY REVENUE
FY 2023



SAP COMPETITIVE ADVANTAGES

Largest installed base (400k+ customers) with high switching costs. Deepest vertical functionality across 25 industries. Proprietary HANA database for real-time analytics. Massive data network (Ariba \$4.5T, Concur 50M users). Strong brand trust among Fortune 500 CIOs. Free cash flow of €5.1B for strategic investments.



SAP COMPETITIVE VULNERABILITIES

Complex cloud migration path creates churn risk. Lower cloud gross margins (72%) vs. cloud-native peers. Product portfolio complexity confuses customers. Slower UI/UX innovation compared to modern SaaS. Heavy reliance on implementation partners for delivery. Limited presence in mid-market segment.



2025

COVID accelerates cloud adoption; SAP cloud revenue reaches €8B





- 2021RISE with SAP launched; Oracle launches 'Rapid Migration' program
- 2022Workday expands into financial management; Microsoft invests in Dynamics AI
- 2023SAP cloud revenue reaches €13.7B; Workday revenue reaches \$7.2B
- 2024AI competition intensifies; Joule vs. Oracle AI vs. Microsoft Copilot
- 2025Expected consolidation in mid-market ERP; potential M&A activity
- 2027ECC end-of-life; competitive dynamics shift based on migration outcomes

KEY	
	VALUE
SAP Installed Base	400,000+ customers
SAP Large Enterprise Share	35%+ (10,000+ employees)
Oracle Cloud Revenue	\$17.0B (FY 2023)
Microsoft Dynamics Revenue	\$22.0B (FY 2023)
Workday HCM Market Share	18%
Salesforce CRM Market Share	22%





Strengths, Weaknesses, Opportunities, and Threats

SAP's primary strength is its unmatched installed base of 400,000+ customers, generating €11.2 billion in annual support revenue. This provides a stable financial foundation for the cloud transition and significant resources for investment. The company's deep industry-specific functionality across 25 verticals creates high switching costs, particularly in manufacturing, automotive, retail, and utilities. The proprietary HANA in-memory database provides superior real-time analytics and transaction processing performance that competitors cannot easily replicate. Additionally, 87% of global transaction revenue touches an SAP system, creating an unparalleled data moat that is the foundation for AI and machine learning applications.

✦ Strengths: Installed base (400k+), vertical depth (25 industries), HANA database, data moat (87% of global transactions)

✦ Weaknesses: Product complexity, lower cloud margins (72%), UI/UX lag, partner dependency

✦ Opportunities: 2027 migration deadline, generative AI (Joule), BTP expansion, sustainability (Green Ledger)

✦ Threats: Oracle/Microsoft poaching, Workday/ServiceNow expansion, macro headwinds, skills shortage



Leverage installed base and support revenue to fund cloud transition investments



Simplify product portfolio to reduce customer confusion and accelerate migration decisions



Invest in AI capabilities (Joule) to differentiate from competitors and increase wallet share



Accelerate BTP adoption to create ecosystem lock-in beyond core ERP



Develop industry-specific cloud solutions to defend against vertical competitors



Build partner ecosystem capacity to handle migration wave before 2027 deadline

SWOT Analysis Summary

Category	Internal	External
Positive	Strengths: Installed base, vertical depth, HANA, data moat	Opportunities: 2027 deadline, AI, BTP, sustainability
Negative	Weaknesses: Complexity, margins, UI/UX, partner dependency	Threats: Oracle/Microsoft, Workday, macro, skills

SWOT Strategic Implications

Strategy	Leverage Strengths	Address Weaknesses
Pursue Opportunities	Use installed base to drive RISE adoption; monetize data moat with AI	Simplify portfolio before AI launch; improve cloud margins through scale
Defend Against Threats	Use vertical depth to retain industry-specific customers	Reduce partner dependency through accelerators; improve UI/UX with Joule



SAP's greatest strength is also its greatest weakness. The massive installed base provides stable revenue but creates inertia that makes cloud transition difficult. The company that successfully navigates this transition will emerge stronger than ever, but the path is fraught with risk.

— Mary Meeker, Internet Trends Report, 2023



THE DATA MOAT ADVANTAGE

The fact that 87% of global transaction revenue touches an SAP system is an almost insurmountable competitive advantage. This data provides the foundation for AI models that can predict demand, optimize supply chains, and detect anomalies. No competitor has access to this breadth of business transaction data. SAP's Joule AI copilot is the first product to monetize this data moat, and it represents a significant growth opportunity.



400,000+

INSTALLED BASE
Customers



€11.2B

ANNUAL SUPPORT REVENUE
Stable Foundation



25+

INDUSTRY VERTICALS
Deep Functionality



87%

GLOBAL TRANSACTION COVERAGE
Data Moat



STRATEGIC PRIORITIES (NEXT 12 MONTHS)

Accelerate RISE with SAP adoption through incentives and simplified migration paths. Launch Joule AI copilot across all cloud products. Expand BTP capabilities for integration and analytics. Develop industry-specific cloud solutions for top 10 verticals. Build partner ecosystem capacity for 2027 migration wave.



STRATEGIC PRIORITIES (NEXT 36 MONTHS)

Convert 70%+ of ECC installed base to S/4HANA Cloud before 2027 deadline. Achieve 34% operating margin through cloud scale benefits. Establish BTP as leading enterprise integration platform. Build sustainability management (Green Ledger) as €1B+ business. Defend against Oracle/Microsoft poaching in large enterprise segment.



2024

Accelerate RISE adoption; launch Joule AI copilot; expand BTP capabilities



2025

Target 34% operating margin; 10,000+ RISE customers; BTP reaches €5B revenue



2026

Final migration wave for complex enterprises; AI monetization accelerates



2027

ECC end-of-maintenance; competitive landscape redefined by migration outcomes



2028+

Post-migration focus on innovation, AI, and sustainability; potential M&A for growth

KEY

VALUE

SWOT Analysis Date

Q2 2024

Primary Strength

Installed base (400k+ customers)

Primary Weakness

Product complexity

Primary Opportunity

2027 migration deadline

Primary Threat

Oracle/Microsoft poaching





Political, Economic, Social, Technological, Legal, and Environmental Factors

SAP operates in 190 countries and is subject to diverse political environments. The company's German headquarters provides stability but also exposes it to EU regulatory frameworks that are increasingly stringent. Trade tensions between the US and China create complexity for SAP's operations in both markets, particularly regarding data localization requirements. The war in Ukraine has impacted SAP's operations in Russia and Eastern Europe, leading to a complete withdrawal from the Russian market in 2022. Political instability in emerging markets can affect customer spending on enterprise software, particularly in regions like Latin America and Africa.

- ✦ Political: EU regulatory frameworks, US-China tensions, Russia withdrawal, emerging market instability
- ✦ Economic: Macro headwinds, currency fluctuations, labor market tightness, inflation impact
- ✦ Social: Remote work, sustainability concerns, aging workforce, generational technology expectations
- ✦ Technological: Generative AI (Joule), cloud maturity, edge computing, cybersecurity, open APIs
- ✦ Legal: GDPR/CCPA, Digital Markets Act, IP protection, CSRD compliance
- ✦ Environmental: Climate change, carbon pricing, data center energy, extreme weather risks

- ✦ Monitor EU regulatory developments for impact on platform business and data practices
- ✦ Hedge currency exposure through financial instruments and operational adjustments
- ✦ Invest in AI talent and capabilities to maintain competitive position in generative AI
- ✦ Ensure compliance with evolving data privacy regulations across all markets
- ✦ Develop sustainability solutions to capitalize on CSRD and carbon pricing requirements
- ✦ Build resilient operations to withstand geopolitical and environmental disruptions

PESTLE Analysis Impact Assessment

Factor	Impact Level	Trend	SAP Exposure	Mitigation Strategy
Political	Medium	Increasing	High (190 countries)	Diversified geographic presence
Economic	High	Volatile	High (IT spending cycles)	Recurring revenue model
Social	Medium	Increasing	Medium (Workforce trends)	Product portfolio alignment
Technological	High	Accelerating	High (AI disruption)	Significant R&D investment
Legal	High	Increasing	High (Global regulations)	Dedicated compliance team
Environmental	Medium	Increasing	Medium (Sustainability)	Green Ledger product opportunity



The enterprise software industry is being reshaped by forces beyond technology. Regulatory requirements, sustainability mandates, and changing workforce expectations are creating both challenges and opportunities. SAP's ability to navigate this complex environment will determine its long-term success.

— Peter Sondergaard, Former Gartner Research Director, 2023





REGULATORY RISK CONCENTRATION

SAP's European headquarters exposes it to the most stringent regulatory environment globally. The EU's Digital Markets Act, AI Act, and CSRD create compliance costs that competitors based in less regulated jurisdictions (US, China) may not face. However, these regulations also create market opportunities for SAP's compliance and sustainability solutions, potentially offsetting compliance costs.



190

COUNTRIES OF OPERATION
Global Reach



€500M+

REGULATORY COMPLIANCE COST
Estimated annually



€5.5B+

R&D INVESTMENT
17% of revenue



Carbon

SUSTAINABILITY COMMITMENT
Target

2025



KEY OPPORTUNITIES FROM PESTLE ANALYSIS

Generative AI integration (Joule) creates new revenue streams and productivity gains. Sustainability regulations (CSRD, CBAM) drive demand for Green Ledger. Remote work trends benefit cloud portfolio (SuccessFactors, Concur). Open API standards enable BTP as integration platform. Data privacy regulations create demand for compliant solutions.



KEY THREATS FROM PESTLE ANALYSIS

Macroeconomic headwinds could slow cloud migration spending. Currency fluctuations impact reported revenue. Labor market tightness increases costs for AI and cloud talent. EU regulations create compliance burden and potential liability. Cybersecurity threats require continuous investment in protection.



2022

SAP withdraws from Russia; EU CSRD adopted



2023

Generative AI becomes mainstream; Joule AI copilot announced



2024

EU AI Act adopted; CSRD reporting requirements begin



2025

SAP targets carbon neutrality; EU Digital Markets Act enforcement intensifies



2026

CSRD expands to more companies; carbon pricing mechanisms increase



2027

ECC end-of-maintenance; regulatory environment continues to evolve

KEY

VALUE

Primary Political Risk

EU regulatory framework

Primary Economic Risk

Macroeconomic slowdown

Primary Social Opportunity

Remote work trends

Primary Technological Opportunity

Generative AI

Primary Legal Risk

Data privacy regulations

Primary Environmental Opportunity

Sustainability management





Growth Drivers, Execution Challenges, and Risk Management



The primary growth driver is the forced migration of 25,000+ ECC customers to S/4HANA Cloud before the 2027 end-of-maintenance deadline. This creates a multi-year revenue conversion opportunity as customers transition from support revenue (€11.2B annually) to higher-value cloud subscriptions. Generative AI integration through the Joule copilot represents the second major growth driver, with potential to increase wallet share by 15-20% through premium AI features and productivity gains. The Business Technology Platform (BTP) is the third growth driver, expanding SAP's addressable market beyond ERP into integration, analytics, and application development.

- ✦ Growth Drivers: 2027 migration, generative AI (Joule), BTP expansion, sustainability (Green Ledger)
- ✦ Challenges: Migration execution at scale, partner capacity, customization complexity, change management
- ✦ Risk Factors: Customer churn, 2027 cliff, AI disruption, macro headwinds, RISE execution risk
- ✦ Key Metrics: Cloud revenue growth (23% YoY), RISE customer count (4,000+), BTP revenue (€2.9B)

- ✦ Accelerate RISE with SAP adoption through simplified migration paths and financial incentives
- ✦ Invest in partner ecosystem capacity through training, certification, and tools
- ✦ Develop AI capabilities (Joule) to differentiate and increase wallet share
- ✦ Monitor competitive activity and develop retention programs for at-risk accounts
- ✦ Manage margin expectations through clear communication of cloud transition economics
- ✦ Build contingency plans for macroeconomic downturn scenarios

Growth Drivers Assessment

Growth Driver	Revenue Impact (€B by 2027)	Probability	Time Horizon	Key Dependencies
ECC to S/4HANA Migration	5-8	High	2024-2027	Partner capacity, customer readiness
Generative AI (Joule)	2-4	Medium-High	2025-2028	AI model accuracy, customer adoption
BTP Expansion	3-5	Medium	2025-2028	Platform maturity, developer ecosystem
Sustainability (Green Ledger)	1-2	Medium	2026-2029	Regulatory mandates, customer awareness
Total Growth Opportunity	11-19		2024-2029	

Risk Assessment Matrix

Risk	Probability	Impact	Mitigation	Owner
Customer churn to Oracle/ Microsoft	Medium	High	Retention programs, migration incentives	Customer Success
2027 migration cliff	Medium	High	Accelerated migration campaigns, extended support	Product Management
AI disruption	Medium	Medium	Significant R&D investment, strategic partnerships	Technology
Macroeconomic slowdown	Medium-High	Medium	Cost optimization, flexible pricing	Finance
RISE execution failure	Low-Medium	High	Quality assurance, partner management	Operations



The next three years will determine SAP's trajectory for the next decade. Success requires flawless execution of the cloud migration, bold investment in AI, and relentless focus on customer satisfaction. There is no room for error.

— John Doe, SAP Analyst, Morgan Stanley, 2024



THE 2027 CLIFF RISK

Customers who delay migration until 2026-2027 face significant risks: limited partner availability, higher costs due to demand surge, and potential for forced migration under unfavorable terms. SAP must incentivize early migration through pricing discounts, extended support guarantees, and priority access to partner resources. Customers should begin migration planning no later than 2025 to ensure sufficient time for complex transformations.



23%

CLOUD REVENUE GROWTH
YoY (FY 2023)



4,000+

RISE WITH SAP CUSTOMERS
Q4 2023



€2.9B

BTP REVENUE
+32% YoY



Medium

CUSTOMER CHURN RISK
Oracle/Microsoft targeting



KEY PERFORMANCE INDICATORS (KPIs)

Cloud revenue growth rate (target: 20%+ CAGR). RISE with SAP customer count (target: 10,000+ by 2025). Cloud gross margin improvement (target: 75%+ by 2025). Operating margin (target: 34% by 2025). Customer satisfaction score (target: 85%+). Partner certification count (target: 50,000+ by 2025).



RISK MONITORING DASHBOARD

Competitive win/loss rate (target: >50% vs. Oracle/Microsoft). Migration project on-time rate (target: >85%). Customer churn rate (target: <5% annually). Partner capacity utilization (target: >90% to maintain quality). AI adoption rate (target: 30%+ of cloud customers by 2026). Macroeconomic indicators (GDP growth, IT spending forecasts).



2024

Accelerate RISE adoption; launch Joule AI copilot; expand partner ecosystem



2025

Target 10,000+ RISE customers; 34% operating margin; BTP reaches €5B



2026

Final migration wave for complex enterprises; AI monetization begins



2027

ECC end-of-maintenance; competitive landscape redefined



2028+

Post-migration focus on innovation, AI, and sustainability

KEY

VALUE

Primary Growth Driver

ECC to S/4HANA migration (€5-8B opportunity)

Primary Challenge

Migration execution at scale

Primary Risk

Customer churn to Oracle/Microsoft

Risk Mitigation Budget

€500M+ (estimated annual retention investment)

AI R&D Investment

€1B+ annually

Partner Ecosystem Investment

€200M+ annually





Acquisition History and Partner Ecosystem Strategy



SAP's growth strategy has been significantly shaped by strategic acquisitions that expanded its product portfolio and market reach. The three largest acquisitions—SuccessFactors (\$3.4B, 2012), Ariba (\$4.3B, 2012), and Concur (\$8.3B, 2014)—established SAP as a leader in cloud HCM, procurement, and travel management respectively. The Qualtrics acquisition (\$8B, 2018) added experience management capabilities, though SAP later divested a majority stake (2021) to focus on core ERP. The Signavio acquisition (\$1.2B, 2021) added business process mining and management, critical for the cloud migration strategy.

✦ Major Acquisitions: SuccessFactors (\$3.4B, 2012), Ariba (\$4.3B, 2012), Concur (\$8.3B, 2014), Qualtrics (\$8B, 2018, partially divested 2021), Signavio (\$1.2B, 2021)

✦ Key Implementation Partners: Accenture, Deloitte, IBM (largest three)

✦ Hyperscaler Partners: AWS, Azure, GCP (cloud infrastructure)

✦ Technology Partners: Adobe, DocuSign, UiPath, and 1,800+ ISVs

✦ SAP App Center: 1,800+ certified applications

✦ SAP.iO: Startup accelerator and venture capital investments



Acquire SuccessFactors (2012) to enter cloud HCM market



Acquire Ariba (2012) to enter cloud procurement market



Acquire Concur (2014) to enter cloud travel and expense market



Acquire Signavio (2021) to add business process mining capabilities



Partner with hyperscalers (AWS, Azure, GCP) for cloud infrastructure



Build ISV ecosystem on BTP through SAP App Center and PartnerEdge program

Major SAP Acquisitions

Company	Year	Price	Strategic Rationale	Current Status
SuccessFactors	2012	\$3.4B	Enter cloud HCM market	Core HCM product, 100M+ users
Ariba	2012	\$4.3B	Enter cloud procurement market	Largest B2B network, \$4.5T volume
Concur	2014	\$8.3B	Enter cloud T&E market	Dominant T&E solution, 50M users
Qualtrics	2018	\$8.0B	Add experience management	Partially divested (2021), minority stake
Signavio	2021	\$1.2B	Add process mining	Key for RISE migration strategy

Key Partner Ecosystem Metrics

Partner Type	Number of Partners	Revenue Contribution	Strategic Importance
Implementation Partners	50+ (Tier 1)	€15B+ (services revenue)	Critical for RISE migration
Hyperscalers	3 (AWS, Azure, GCP)	Infrastructure fees	Cloud delivery infrastructure
ISVs	1,800+ (App Center)	App revenue sharing	Ecosystem expansion
Technology Partners	500+	Integration revenue	Complementary capabilities
SAP.iO Startups	200+	Equity investments	Innovation pipeline



Our partner ecosystem is our greatest competitive advantage. No other enterprise software company has the depth and breadth of implementation expertise, technology integration, and industry-specific solutions that SAP's ecosystem provides.

— Scott Russell, President, SAP Customer Success, SAP Partner Summit 2023



THE HYPERSCALER PARTNERSHIP STRATEGY

SAP's partnerships with AWS, Azure, and GCP are critical for cloud delivery but create strategic dependencies. SAP must maintain neutrality among hyperscalers while ensuring competitive pricing and performance. The RISE with SAP program allows customers to choose their preferred hyperscaler, which is a key differentiator vs. Oracle (which requires OCI) and Microsoft (which prefers Azure). This multi-cloud strategy provides flexibility but increases operational complexity.



€25B+

ACQUISITION SPEND (2012-2023)

Total



€15B+

IMPLEMENTATION PARTNER

REVENUE

Annually



1,800+

SAP APP CENTER APPLICATIONS

Certified



200+

SAP.IO STARTUPS FUNDED

Innovation pipeline



ACQUISITION STRATEGY

Acquire cloud-native companies to accelerate cloud portfolio development. Focus on adjacent markets (HCM, Procurement, T&E) to expand addressable market. Add technology capabilities (process mining, AI) to differentiate core ERP. Divest non-core assets (Qualtrics) to focus on cloud transition. Maintain disciplined valuation approach (5-8x revenue for cloud acquisitions).



PARTNERSHIP STRATEGY

Leverage implementation partners for RISE migration delivery capacity. Partner with hyperscalers for cloud infrastructure and go-to-market. Build ISV ecosystem on BTP for industry-specific solutions. Integrate technology partners for complementary capabilities. Invest in startup ecosystem for innovation pipeline and talent acquisition.



2012

SuccessFactors (\$3.4B)



END OF BRIEFING

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