



## SAP Kills Two Birds with One Acquisition: Frictionless

### Market Event

SAP last week announced its acquisition of Frictionless Commerce, a privately held supplier relationship management (SRM) solutions provider. For the end user, this deal provides stability for the Frictionless technology — which now falls under SAP's well-heeled corporate umbrella — but takes away an established vendor. But when the integration roadmap is finalized, SAP customers will *finally* have an end-to-end sourcing-to-contract management solution they have been yelling for, as well as a service team to back it up. The acquisition also adds another phase of SAP's On Demand strategy, having previously announced an offering on the customer relationship management (CRM) side of the enterprise solutions market. For the sourcing solutions market, this acquisition represents a continuing consolidation trend among providers.

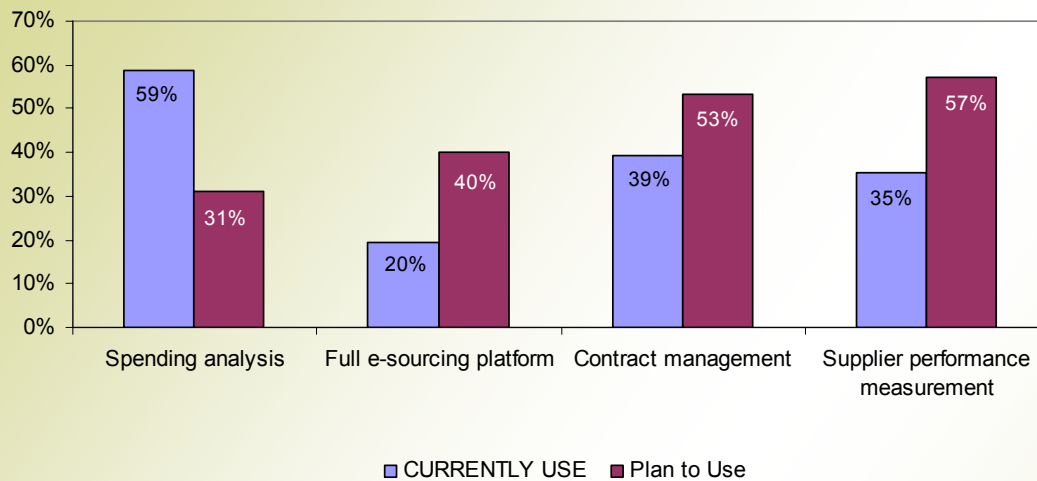
### Aberdeen Analysis

SAP has been trying to fill several major gaps in its SRM product line, namely spend analysis/intelligence, sourcing analysis (optimization), contract management, e-sourcing, and supplier performance measurement. Emptoris's recent acquisition of diCarta left the market with one less contract management solution, the solution area SAP had identified as a high priority based on customer feedback. The addition of contract management capabilities from Frictionless, combined with SAP's recent acquisition of cross-enterprise compliance solution provider Virsa Systems, gives SAP the potential to deliver a true end-to-end compliance platform since contracts play a major role in compliance efforts.

Recent Aberdeen studies of 340 enterprises show a clear preference to lean toward existing ERP providers for spend analysis and a slight preference toward them for supplier performance measurement. In a new Aberdeen survey focused on spend analysis and spend intelligence, 37% of respondents do not have spend analysis/intelligence systems in place. In the same survey, 25% of SAP customers (which make up 53% of the survey pool) do not have such solutions. These numbers suggest SAP has an opportunity to expand its current accounts. SAP's senior management, which states that organic growth, coupled with smaller "gap filling" acquisitions, is the company's growth strategy, will not make an investment unless there is strong market demand.

### Mid-Market Ramifications

The On Demand capabilities of Frictionless will accelerate SAP's sales efforts among mid-size enterprises since many mid-market companies look to On Demand capabilities over those of licensed software. Also, in instances in which enterprises have made recent investments in other ERP solutions, the SAP sales team has the opportunity to sell a full SRM suite to supplement them. The capabilities SAP is acquiring from Frictionless are in high demand among mid-market enterprises (Figure 1).

**Figure 1: Mid-Market Investment Plans for SRM**

Source: AberdeenGroup, March 2006

Of the enterprises that utilize spending analysis solutions (59%), almost half are using spreadsheets. Many enterprises that have seen the value in spend analysis and use spreadsheets are looking to outside providers since a spreadsheet solution is difficult to scale and maintain.

## Aberdeen Recommendations

### *Frictionless Customers*

Approximately one-fourth of Frictionless customers run SAP. As SAP takes over, these customers should ensure that their current service levels are maintained. If your company is in the middle of an implementation, stay the course, but make sure your client services team stays intact. Acquisitions of this nature can result in the departure of consultants, and this is not a good time to be training new consultants, since it can extend your implementation calendar. SAP is in the process of defining its SRM roadmap, so be sure to work with your new SAP representatives to state your requirements. SAP excels at working with clients to develop innovative solutions, but be patient: The company will ensure that such innovations are available to a larger audience, and delivery timelines may be different than if these innovations were to come from a smaller company.

### *SAP Customers*

Many SAP customers have been working with SAP to define an SRM solution, and SAP has answered. While the Frictionless solution may not be the specific solution SAP customers have been looking for, it's a good, robust solution that services major clients. Enterprises that standardize on SAP will be happy to evaluate its new SRM solution. But don't let IT standardization drive your decision; SRM has major business ramifications: cost reductions for direct materials, sourcing cycle time reductions, and supplier development, to name a few. Exercise the functional capabilities to ensure an SRM solution fits your business processes. And, review the roadmaps carefully; SAP customers exploring a NetWeaver upgrade may see the addition of SRM functionality as an added impetus to perform such an upgrade.

## Aberdeen Conclusions

Many SRM vendors report a tremendous increase in client activity in the form of RFQs and selection processes, suggesting that this sector of the software industry is picking up. SAP has .

been exploring potential acquisitions to jumpstart its SRM efforts, and the timing is right. Consolidation has been occurring in the SRM space and its sub-niches (e-sourcing, contract management, spend analysis) for several years, and SAP has acquired a vendor with multiple solutions, a robust technology (already NetWeaver-certified), and On Demand capabilities, thus complementing the On Demand customer relationship management (CRM) strategies it launched earlier this year.

## Related Research

[\*The Direct Materials Sourcing Benchmark Report\*](#), March 2006

[\*Strategic Sourcing in the Mid-Market Benchmark\*](#), December 2005

[\*Contract Management Benchmark Report: Procurement Contracts\*](#), March 2006

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