

WHITE PAPER

Dell and SAP Strengthen Their Alliance

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Introduction

On April 28, 2004, Dell and SAP AG announced extensions to their eight-year-old alliance to bring their joint products to the worldwide enterprise server marketplace. The alliance is global in scope: Dell/SAP Competence Centers in Austin, Texas; Walldorf, Germany; and Kawasaki City, Japan, provide application validation and performance characterization and help users size and configure Dell server systems with SAP software. These enhancements will further facilitate the deployment of SAP enterprise application software on scale-out configurations of Dell servers.

State of the Enterprise Market: Servers and Software

IT managers have been increasingly extending server capacity through the addition of low-cost volume servers, a technique that took hold during the economic downturn of 2001–2003, when they focused on reducing hardware acquisition costs. Lessons learned in multitiered computing in recent years have allowed IT managers to think differently about how they will approach the next generation of enterprise computing.

In short, these IT managers plan to deploy the next wave of systems while holding the line on hardware and software acquisition costs, deployment costs, and maintenance costs. At the same time, IT organizations intend to reduce complexity in their IT shops, partly by consolidating existing workloads and partly by managing their systems in a more comprehensive and consistent way. Flexibility of IT infrastructure, in which computing capacity can be added, as needed, will be a hallmark of the next generation of IT computing infrastructure. Similarly, the IT organization will choose enterprise software applications that are easier to deploy, maintain, and integrate with one another.

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Dell and SAP in the Worldwide Market

Dell is one of the top 4 server vendors in the world, and IDC server data shows that Dell server revenues and unit shipments have grown quarter after quarter since 2001. Dell sold 1.1 million servers worldwide in 2003, generating \$4.2 billion in revenues worldwide. IDC research shows that while the server market competition remained intense throughout the recent economic downturn of 2001–2003, Dell continued to grow server revenues and unit shipments — as well as market share on an annual basis for both revenues and units — throughout that period. Today, competition on the basis of price and price/performance continues, and Dell's direct sales model and its delivery of preconfigured systems have helped to grow server

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sales both in large organizations, in which IT budgets are limited by budgetary constraints, and in small and medium-sized businesses (SMBs), which have limited IT resources.

SAP is the largest enterprise application software maker with more than \$5.2 billion in license and maintenance revenues in 2003, three times that of its closest competitors. Despite a tough economic environment, SAP continues to solidify its position in the \$65 billion enterprise application market because of its rich portfolio of applications such as mySAP and SAP ERP and software infrastructure products such as SAP NetWeaver integration technology. SAP reports an installed base of 22,600 customers and 76,100 installations in over 120 countries. Moreover, IDC believes that SAP is likely to gain share at the expense of smaller vendors because they are often not equipped to deliver integrated solutions for all sizes of businesses in various industries.

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Scale-Out Computing Is Gaining in the Enterprise

Scale-out computing configurations are taking on workloads formerly reserved for traditional symmetric multiprocessing (SMP) servers and scalable servers within the datacenter. Scale-out computing achieves two goals: It reduces initial hardware acquisition costs to support new software systems, and it allows for flexible growth of those systems, as needed, due to the addition of more end users accessing the system or the growth of databases running on the system.

Servers that are used to build scale-out configurations now have powerful microprocessors on board, allowing two-way and four-way systems to do work that used to require larger servers a few years ago. The first step toward making scale-out configurations possible was the availability of sophisticated clustering software that allowed multiple servers to be linked together as a single computing resource. The second step was the porting of enterprise software, including applications and database software, to run on these scale-out computing configurations.

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Over the past two years, significant progress has been made in this area, with the availability of Oracle9i RAC and other clustering software that links multiple servers, along with high-speed interconnects and linked storage. Now, a new wave of enterprise software applications is being readied to run on these scale-out servers — allowing scale-out clusters to move from tier 1 workloads (i.e., Web-serving, edge computing) to tier 2 workloads (i.e., enterprise application workloads).

Dell/SAP Alliance

Highlights of the announcement include the following:

- ☒ The enhanced alliance highlights further integration of Dell server products, including its PowerEdge servers, which are based on Intel Xeon processors, and SAP business solutions, such as SAP ERP and SAP NetWeaver.
- ☒ Dell views the arrival of SAP NetWeaver as a technology that will help customers decide to make the transition from scale-up SMP servers to scale-out configurations of Dell servers, including servers running the Microsoft Windows and Linux operating systems.

- ☒ Dell and SAP are expanding their cooperation in customer service and support to provide joint customers with an improved escalation management procedure. Customers calling either Dell or SAP will be routed to the right experts who will work together to provide seamless enterprise-class problem resolution.
- ☒ Dell has launched new services to help customers deploy SAP software on Dell servers. Dell will deliver presales technical consulting and sizing evaluations that fit workloads onto server clusters. Dell's professional services organization, working together with its service partners, will focus on easing SAP installations by providing migration assessment, installation and migration services, and performance tuning.
- ☒ Dell and SAP will work together to provide sales and support worldwide. Dell reported that its servers currently support SAP workloads in more than 5,000 installations in over 60 countries.
- ☒ Dell has established Dell/SAP Competence Centers in Austin, Texas; Walldorf, Germany; and Kawasaki City, Japan. These centers provide enterprise-class support, including escalation of operational problems to hardware experts and software technology experts in the competence centers and in the companies themselves for Dell/SAP systems worldwide.
- ☒ The alliance does not yet include a software reseller agreement, bundled systems that combine Dell and SAP products in the same SKU, or business consulting services.

Benefits to Users

Dell and SAP believe that these enhancements to their alliance will lower total cost of ownership (TCO), simplify operations, and provide enterprise-class support for their joint customers. Specifically, Dell and SAP aim to provide more benefits to enterprise users, including the following:

- ☒ Ease of acquisition and deployment
- ☒ Deployment of SAP enterprise application software on Dell's volume servers, often in a clustered server configuration rather than on larger SMP servers
- ☒ Support for both Microsoft Windows and Linux on Dell servers
- ☒ Integration with other enterprise software packages and with Oracle9i RAC, which can serve as the database for SAP enterprise application software
- ☒ A service and support concept that optimizes the combined software/server platform for enterprise applications, allows joint customers to take advantage of the strengths of both organizations, combines Dell and SAP experts, and is backed by the regional competence centers in the Americas, Europe, and Asia/Pacific

Collectively, these benefits lead to cost savings and align with the primary objective for today's IT organization: finding ways to reduce the cost of IT.

IDC Analysis

By enhancing its partnership with SAP, Dell is expanding the enterprise software ecosystem that can now run on its low-cost two-way and four-way servers. The combination of powerful microprocessors and sophisticated clustering software is creating an extensible hardware platform that can integrate two to four servers, or more, into a single computing resource. Over time, it will be possible to add more servers to the computing cluster supporting enterprise applications. This scale-out approach fits many customers' plans to increase server count, over time, as capacity needs grow.

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Dell Is Growing Sales on a Worldwide Basis

Dell is currently the fourth largest server vendor worldwide, after IBM, HP, and Sun, and the growth of its server revenues each quarter has been consistent since 2001. Importantly, Dell has improved its presence in the worldwide server market, growing sales in Europe, Asia/Pacific, and the Americas and building on its longtime strength in the United States, which adopted Dell's direct sales market early on.

Dell has long promoted the idea that groups of small servers can be deployed as a single, virtualized computing resource, if advanced clustering software and high-speed data interconnects link the individual servers. Increasingly, Dell has supported the migration of workloads that have been running on scalable servers to these scale-out configurations, if the workload is adapted to run on scale-out configurations and appropriate IT skill sets are available.

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SAP Aims for Improved Integration and Platform Support

IDC estimates that more than half of SAP customers are in transition to version 4.7 of the SAP ERP suite. In many cases, more than one type of operating system is supported at the customer site. IDC notes that many SAP installations combine SAP applications running on multiple servers, each of them updating a centralized database. Therefore, making transitions as easy as possible is high on SAP's strategic agenda.

To address these expected transitions, SAP has invested heavily in an integration component called SAP NetWeaver, which is a collection of integration technologies that includes a standard portal interface, data management tools, integration brokers, and integrated analytics. With SAP NetWeaver's APIs, users can more easily integrate elements of SAP with third-party software — a common requirement for many IT organizations. In addition, SAP's efforts in helping users aggregate consistent internal data, such as supplier and purchasing lists, will play to Dell's strengths in server consolidation for better system throughput and data synchronization.

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While aiming to maintain its market leadership with large enterprises, SAP is also aiming to develop greater share with SMBs. In support of that goal, SAP's mySAP All-in-One and SAP Business One applications are preconfigured and support rapid deployment. Offering simpler products that are less expensive to purchase and deploy is critical to addressing SMBs. SAP also believes that both

SMBs and larger enterprise customers are increasingly interested in tapping open source products. IT organizations are evaluating host servers running the Linux operating system and the MySQL open source database for data management, and SAP intends its products to be easily integrated in these environments. SAP recognizes that Dell's systems are shipped with Windows and with Linux, both of which are growing market share within the SMB user community.

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Challenges and Meeting the Challenges

Dell and SAP will face challenges in the marketplace because users are seeking to reduce the number of technology providers with which they work. Any alliance that draws two sizable vendors together could potentially take market share from other, smaller vendors that are equally qualified. Thus, it is important that both Dell and SAP express unequivocal support for open architecture and industry-standard technology in order to preserve users' existing investments and to ensure that they will not be locked into a proprietary (single-vendor) road map.

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Although Dell pioneered the direct approach to selling IT systems, some of its largest competitors have also started selling systems via a direct channel. Dell is expert at competing on price, but it will also be important for the company to compete on the basis of overall price and value for a given server-based solution — a calculation that includes convenience of acquisition and smooth operational support over time so that IT managers can reduce the people costs and other "soft costs" associated with deploying enterprise server systems.

IDC believes that fielding an efficient and reliable escalation management process to handle customer issues will be crucial to the success of this alliance. IT organizations evaluating systems from Dell and software from SAP will want strong assurances that the two companies will provide seamless support and consistent advice regardless of whether the issue concerns hardware, software, or operating environment.

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Further, Dell and SAP will need to clearly articulate the value proposition of their combined server-based solutions by providing tangible proof that companies of all sizes will be able to consolidate their servers and applications either gradually or on a large scale without causing interruptions to their business processes.

Conclusion

Dell and SAP are intensifying their business alliance and showing their support for the new style of scale-out computing that is taking hold as a standard platform for enterprise computing. Both companies are top vendors in their respective markets, and both have achieved high marks for product quality, reliability, and global support capabilities.

The service offerings from Dell and SAP anticipate some of the most pressing needs of IT organizations deploying enterprise software: to reduce hardware and software costs, deploy new systems rapidly, and supply enterprisewide data through persistent and stable hardware and application environments.

By expanding their global alliance, Dell and SAP recognize that they can raise the bar in systems deployment and business process automation in the scale-out computing space. As IT managers are emphasizing cost and efficiency in the new wave of enterprise computing, IDC believes that this expanding alliance is responding to many of the largest trends in the worldwide server market today and that it has the potential to grow revenues and unit shipments for both Dell and SAP, if they can demonstrate to users rapid returns for tightly integrated hardware and application solutions.

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