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Research

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Guidelines for Responding to SAP's Increased Maintenance Fees

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This research offers SAP customers a six-step plan to help reduce the cost impact of the new SAP Enterprise Support package.

Key Findings

- SAP has uplifted the support fees by replacing its legacy Standard Support with SAP Enterprise Support.
- Many user organizations are concerned and have no budgeted means to fund the increased fees without additional savings achieved by the support service.
- The maintenance contract for Enterprise Support specifying the support deliverables has not yet been issued to all customers, making an evaluation of the value added difficult, if not impossible.

Recommendations

- Customers should insist on a value-based approach by SAP to funding higher fees via a sound business case with a tangible return on investment (ROI).
- Customers should consider their internal efforts for application support and identify cost drivers to be addressed by SAP.
- Customers should intensify their efforts to reduce shelfware because of the higher maintenance impact it will have.
- Customers looking at new license purchases should leverage this spending to postpone the impact of the new maintenance plan and to negotiate higher discounts to compensate for higher support costs.
- Customers able to postpone projects should consider implementing a moratorium on new SAP spending to increase leverage.
- Customers should consider putting a wall around current SAP investments. By region or application area, there may be an opportunity to shift future investments to alternative, lower-cost vendors and acquisition models, such as software as a service (SaaS), open source (if available) or an infrastructure utility for SAP. If tenable, customers should leverage the threat of moving to alternate suppliers.
- Customers should wait until as late as possible in 2008 to leverage all the market feedback and potential commercial changes in the software business, and use the time to improve contractual provisions.

WHAT YOU NEED TO KNOW

The SAP Enterprise Support offering has created a strong negative reaction in the market. The two main reasons are:

- It replaces SAP's legacy Standard Support offering at a much higher fee (29% uplift).
- The value it could provide has not been communicated or proven so far in a credible manner.

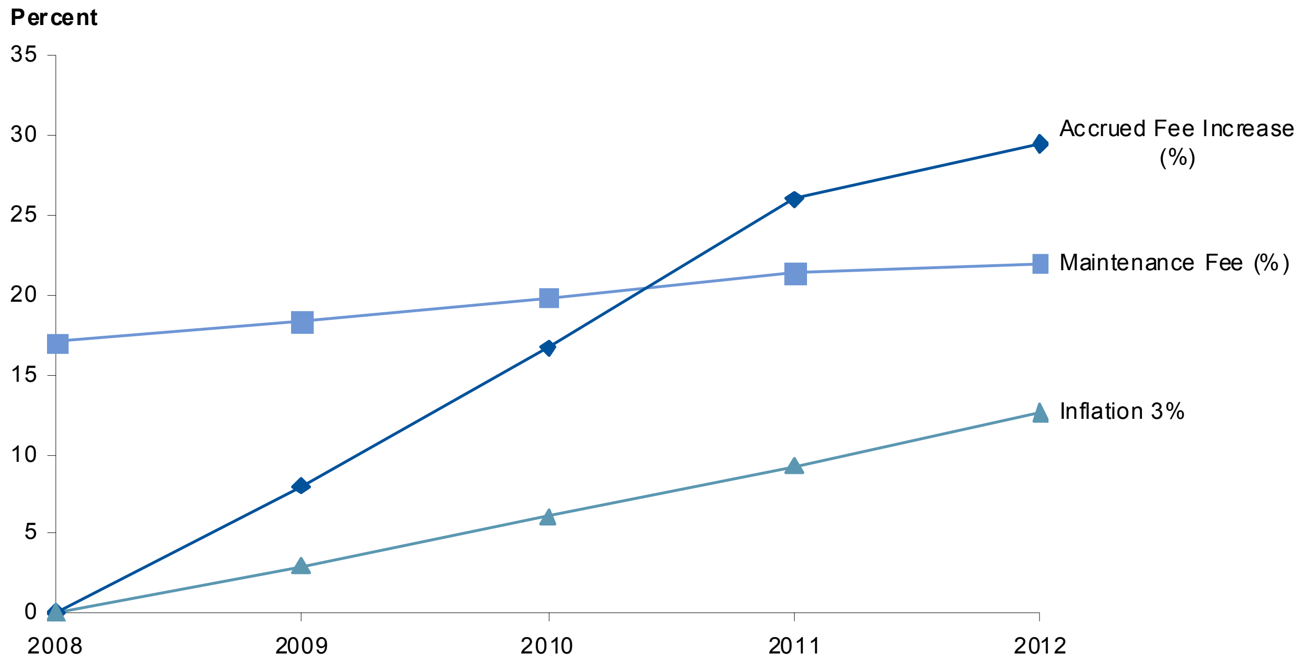
Many customers are unhappy, realizing that they are in a poor contractual position with little leverage to counter this unilateral decision by their strategic software vendor. The absence of a detailed description of the deliverables in the new support program, the uncertainty about the future contractual terms and conditions, the possibility of continued unexpected cost increases, and the worst financial crisis in years are increasing CIOs' and CFOs' concerns, and have caused a spike in Gartner inquiry calls.

ANALYSIS

SAP's change in maintenance and support programs and increase in fees from 17% to 22% during the next five years (see "SAP Enterprise Support Becomes a Common Support Platform for the Client Base") have caused considerable concern among Gartner clients because they envision a huge cost increase for maintaining their SAP landscape. Although this is a single-digit increase in maintenance rates, in reality, it is a 29% increase in net support fees paid by most clients. Even if the increases are not immediate — and are stepped year by year so the rate goes to 18.36% in 2009, 19.83% in 2010, 21.42% in 2011 and 22% in 2012 — it is still a significant additional investment for many clients (see Figure 1). This change also comes at a time in the economic cycle when SAP customers cannot afford such increases, often coming on top of increased costs associated with ERP 6.0 upgrades. Many clients believe that maintenance costs should be going down, not up, because of the following factors:

- SAP's use of lower-cost offshore locations to provide some maintenance work
- The scale SAP must be able to achieve in supporting the number of customers it has (45,000)
- The increased levels of self-support
- The increased automation of some areas of support

Figure 1. SAP Enterprise Support Maintenance Fee Increase for Installed Licenses



Source: Gartner (November 2008)

Although these factors may have some bearing on the actual cost of maintenance, the reality of the economics of the software market (not just for SAP) is that because of the high switching costs (often three to seven times the license fees) and the mostly single-source maintenance model, customers are locked in and vendors can charge as much as they feel the market will bear, irrespective of the real costs (see "The Software Value Gap Is Driving a Wedge Between Vendors and Customers"). Therefore, maintenance is a high-margin business for most enterprise software vendors, including SAP, with few customers ever canceling maintenance agreements (see "Long-Term Trends That Will Radically Alter Licensing in the Software Market"). The reality of this lock-in means that negotiation leverage is not enough for most clients to make significant changes with SAP on this issue; however, there are some things that clients can do.

From the significant number of client inquiries about the SAP maintenance changes Gartner has received, the most-common questions from clients are:

- Is there a way to stay with a 17% fee and continue with Standard Support?
- Why is SAP taking away the low-cost Standard Support for customers that have found this offer sufficient?
- How are other user organizations dealing with the new offering?
- What advantages does Enterprise Support provide, and are there specific service-level agreements (SLAs)?

In all the calls, Gartner was asked about how customers could avoid higher maintenance fees. Because many contracts were custom-negotiated, it is difficult to provide generic advice here, apart from recommending a careful review of the legal contracts and to pay particular attention to any customized maintenance caps clients may have. Analysis of customized contracts aside, Gartner has devised a six-step plan of action for clients to undertake to improve their position with SAP and, hopefully, to drive the hotly felt maintenance issue to a positive outcome.

Step 1: Reject SAP's high-level promises in its announcement letter.

SAP's announcement letter, which was sent to its clients in July 2008, describes the new offer in a conceptual manner. However, neither this letter nor any subsequent communication offers any real details about how the proposed benefits of operational cost reduction, risk mitigation and facilitation of customer innovation will be realized. It talks about the downtime caused by ineffective maintenance, stating: "It is in this context that SAP Enterprise Support was designed, with your needs in mind, bringing a broader scope and higher level of support engagement to our customers with an aim to help facilitate customer innovation, while reducing risks, and driving down operational costs."

Clients should refer to this statement in a rejection message to the announcement (by e-mail or formal letter), simply stating that they do not understand this high-level promise and how the cost can be reduced. They might add that unless the foundation for cost savings is understood, a funding of higher fees is unrealistic. When appropriate, this unilateral move of a strategic application vendor should also be brought to the attention of the CEO for your strategy in dealing with the issue.

Step 2: Ask for a meeting with SAP to define a specific business case.

Clients should ask for a meeting with the SAP sales representative to discuss the business case and to define how much cost can be reduced by the new offering and its deliverables. The idea behind this is to ask SAP to cost-justify the move and to free up savings to pay the additional maintenance fees. A mutually agreed-on business case will contain target figures and measurable deliverables/milestones. SAP's statements about the compulsory use of SAP Solution Manager Enterprise Edition as a means for providing added value from Enterprise Support should be questioned because many clients believe that this will cause significant internal additional work and associated costs. Therefore, before accepting the new offer, clients should understand the real effort and how resources from SAP will support this undertaking.

Because this quest for a business case is shared by many, user organizations should leverage their industry or SAP business networks to learn about requirements that can be shared and promoted jointly to SAP.

Step 3: Define the entitlements.

The legacy Standard Support offering was not based on an explicit maintenance and support entitlement. The assumption is that the new SAP Enterprise Support contract should have specific contractual entitlements, such as:

- Definition of SLAs, with a clear definition of service delivery scope, that properly reflect your dependency on the support deliverables. These definitions should state how SLAs will be measured and responded to (for example, a high-priority message should be responded to in 30 minutes, and a temporary work-around should be provided in four hours). Customers should request service-level credits if SLAs are missed at a minimum of 0.25% each, per quarter, for each failure, with a cap of 5% in total. Customers should also negotiate not to diminish clauses to prevent unexpected changes in the future. In reality, Gartner has rarely seen concrete definitions of these SLAs, or any financial penalties, but SAP should provide them before customers agree to any new fees.

- An addendum including the business case defined in Step 2. This explicitly ties the new fees to the expected outcomes of reduced cost, reduced risk and operational efficiency. Ideally, this should allow for maintenance fee adjustments if the identified savings targets are not met.

Step 4: Leverage any imminent new purchases, or design a moratorium on new spending and investigate alternative suppliers.

New purchases are problematic, with the new fee of 22% being applied immediately. If negotiations for new purchases, or for license upgrades from R/3, are imminent, then Gartner has seen some limited examples of clients leveraging this new license spending successfully to reduce maintenance fees, particularly recently given SAP's preannouncement of earnings with lower numbers than expected.

Organizations should leverage any new purchases, especially those occurring in SAP's fourth quarter to negotiate better maintenance deals or higher discounts to offset the higher maintenance fees. Other clients are designing moratoriums or deferring new purchases to gain leverage, with the idea of postponing the increase in fees for a year. Others are assessing whether they can use the shelfware implicit in many organizations by reassigning licenses that have not been used (see "Reduce IT Spending on Software Maintenance and Support").

In some cases, the impact of these higher maintenance fees may provoke organizations to consider putting a wall around their SAP investments. By region or application area, there may be an opportunity to shift future investments to alternative, lower-cost vendors and acquisition models, such as SaaS open source (if available) or infrastructure utility for SAP. The additional cost required with these approaches, such as additional integration work and the costs of managing more suppliers, should be analyzed and compared to the current and future cost effects of staying with SAP. If tenable, the threat of moving to alternative suppliers should be used as leverage for negotiating with SAP because it would put its future business at risk.

Step 5: Investigate the ramifications of canceling support and going to a third-party provider.

Because of the high level of dissatisfaction felt among the SAP customer base, or because clients realize that they need to have alternatives if they threaten not to sign up for the new maintenance package, many have asked what will happen if they cancel a maintenance contract with SAP. Customers should understand that cancellation is an all-or-nothing decision. If they need the maintenance package later, then SAP's standard approach to reinstatement is to invoice the customer the accrued fees associated with the time period without support, plus a reinstatement fee. So, the decision about continuing maintenance after the cancellation is not trivial.

Unfortunately, not many third-party offerings have evolved in the SAP arena (see "SAP R/3 4.6c Customers Search for Third-Party Support Options"), and they are limited to R/3 systems at this time. One of the more well-known providers in the U.S., Rimini Street, however, has indicated that it will provide SAP ERP 6.0 support from 2009, with the caveat that SAP talent is scarce. Such third-party offers are typically available at 50% of the cost for the original vendor support. They provide support and regulatory updates and upgrades but do not include upgrade rights to major new versions.

Gartner advises clients to include termination rights in new contracts to enable them to move to third-party offers when available, if they so chose.

Step 6: Work with your legal department to create maximum flexibility for the future.

If the user organization does not see an alternative to signing up for SAP Enterprise Support, then the new maintenance contract should contain the appropriate clauses to address all existing concerns and potential future cost increases. Customers should wait until as late as possible in 2008 to leverage all the market feedback and potential commercial changes in the software business, and use the time for improving the contractual provisions. Customers should consider the following aspects:

- Ensure that you clearly define the entitlements of the maintenance contract and that they cannot be diminished without consent.
- Ensure that the new deal has clear maintenance caps that prevent maintenance from increasing until 2012, and thereafter, limit it to a consumer price index or fixed percentage maximum, whichever is lower.
- Reserve the right to switch between SAP support offerings at any time, with credits applied to future maintenance payments if the new fees are lower. This will prevent

customers from being locked into an expensive contract if, based on customer feedback, SAP decides to establish new, lower-priced offerings.

- Ensure that any failures in delivering the new services and the related savings are met with appropriate penalties and ideally lower fees.

For more general maintenance protections, see "IT Spending on Software Maintenance Is Expensive, So Improve the Value Being Received" and "Reduce IT Spending on Software Maintenance and Support."

The pattern described above needs to be adjusted to each client's situation but provides a reasonable way to prepare for supporting SAP installations from 2009. After the initial announcement, SAP must describe, in detail, how it will effectively implement the new support and how it will execute on the future agreements. As SAP has declared on several occasions (for example, at the Deutschsprachige SAP Anwender Gruppe conference in Leipzig, Germany, September 2008), not all the details of the offering are set in stone, and commercial agreements are still being worked out. In the same way as SAP has provided a phased ramp-up in fees, it will need to ramp up the deliverables and learn from the first client feedback on the deliverables. In return, clients should suggest that they do not expect to pay a different fee until they can understand the changes, react to them in their support environment and have the opportunity to benefit from SAP Enterprise Support.

User organizations have only limited capabilities to absorb higher costs and are facing cost-cutting directives imposed on them by the general economic conditions. However, given the high levels of lock-in, it will be difficult for most to pressure SAP to reinstate the Standard Support offering. It is, therefore, key for customers to leverage any new spending on licenses to negotiate something more advantageous than the current offering and, at the very least, to associate a positive ROI from clients' investments in the more expensive SAP support program.

Tactical Guidelines

- Set up a meeting with your SAP sales representative to define a business case for your organization that identifies operational cost savings derived from Enterprise Support to fund the new offering.
- Use SAP's new offering as a trigger to consider the net requirements for licensing SAP products in the near term. Organizations that have planned to purchase additional licenses should leverage the new deal to negotiate higher discounts and maintenance caps in compensation for higher fees.
- Postpone signing up for the new offering until late in 2008. Those hoping to postpone the impact of the higher maintenance fees beyond this should fully investigate the effects of self-support or third-party support options.

RECOMMENDED READING

"Long-Term Trends That Will Radically Alter Licensing in the Software Market"

"SAP R/3 4.6c Customers Search for Third-Party Support Options"

"SAP Enterprise Support Becomes a Common Support Platform for the Client Base"

"The Software Value Gap Is Driving a Wedge Between Vendors and Customers"

"IT Spending on Software Maintenance Is Expensive, So Improve the Value Being Received"

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