

Navigating the SAP and SUGEN Enterprise Support Arrangements

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Gartner client feedback continues to reflect deep concerns within the SAP user base surrounding the SAP maintenance fee increase and the issue of Enterprise Support. The work of SAP User Group Executive Network (SUGEN; see Note 1) and the 100 customers it chooses to benchmark for its key performance indicators (KPIs) is essential to resolving this tension.

Key Findings

- Over the last year, SAP customers have protested strongly against maintenance fee increases, leading SAP to work with SUGEN to create a compromise.
- SUGEN is playing a key negotiation and arbitration role on behalf of the SAP user base, and the results will impact the whole client base. Customers paying the increased support fees now depend on SUGEN and 100 customers proving the value of Enterprise Support.
- If this process of showing real value from maintenance is successful, it will clearly differentiate SAP's maintenance and support offerings from those of its competitors.

Recommendations

- SAP customers should understand the details of the Enterprise Support KPI initiative and the role of SUGEN. These will have a big impact on your maintenance costs.
- Where possible, apply the benchmarks in your organization to understand whether Enterprise Support adds value and strengthens your negotiating position.
- SAP customers should avoid paying SAP for Enterprise Support until the offering is clearer, or until it is contractually impossible to delay.
- Use this opportunity to address the "shelfware" issue, and include shelfware deployment in your contract negotiations.

WHAT YOU NEED TO KNOW

SAP announced a significant change in its support model in 2008, increasing the maintenance fees, while delivering a more holistic and richer support offering. This includes improved support tools, guaranteed response times and better support for third-party products. Under considerable pressure from the user community, SAP has modified the terms of the increase and is working with SUGEN, a network of SAP user groups, to define KPI targets that will measure the value of the new support offering. SUGEN is negotiating the KPIs on behalf of the whole user community, and questions remain as to how the KPIs will measure value and be audited.

STRATEGIC PLANNING ASSUMPTION(S)

By 2014, over 50% of SAP customers' maintenance fees will be between 19% and 20% of their license basis.

By 2014, at least 30% of existing SAP customers will have negotiated maintenance arrangements that will differ by more than 2% from the standard contract.

EVENT

Event Facts

SAP held its annual user conference, ASUG-Sapphire, in Orlando, Florida, from the 11 May to 14 May. SAP stated that 10,000 customers, employees and partners attended. In contrast to previous years, SAP did not hold a European Sapphire. On 29 April, SAP and SUGEN announced the benchmarking plan.

Analysis

Last year, SAP misread the willingness of the SAP user community to accept a 30% increase in maintenance fees, particularly since it coincided with the downturn in the economy (see "Findings From the Gartner Survey on SAP Enterprise Support").

SAP's justification messages were mixed. On the one hand, SAP executives said the company was merely moving to the "industry benchmark" to protect "shareholder value," but other executives positioned the offering as a new, more valuable offering. SAP's contracts allow for the increase, but the way it was executed left many customers feeling pressured and betrayed.

The increase in maintenance fees has dominated discussions between SAP and its customers, and Gartner believes that this has significantly reduced SAP's capability to sell further solutions. SAP's fourth-quarter and first-quarter results were obviously impacted by the global recession, but Gartner inquiry data also reflects that the results were impacted by Enterprise Support. Many customers have refused to commit to the changes, and as a result SAP had to plan to address the user community's concerns (see "New Benchmarking to Guide SAP Enterprise Support Fees"). To defuse this situation, SAP has worked with a relatively newly formed organization, SUGEN, a committee of SAP user group leaders, to come up with a compromise. First, SAP delayed the timing of the increases by four years, and capped maintenance to 22% until 2015. Second, SAP said that the increases would go ahead only if SAP's enhancements to the support offering enable the 100 representative customers to meet a set of KPI targets that purportedly prove the value of the new maintenance model.

SAP Enterprise Support is the combination of services, tools and methodologies that SAP provides to its customers to ensure that their SAP software remains stable and operational. Note 2 briefly describes Enterprise Support.

SAP positions this as a new standard in the industry for transparency, accountability and the clear measurement of value. This is the first time a vendor has promised to measure the value of support. If SAP executes on its claims, it will be significantly ahead of its competition, as it would be difficult to replicate this model of linking support to business value without a benchmarking program.

SAP has the contractual right to increase maintenance anytime, and many other vendors have similar clauses. Many other vendors, such as Oracle, have gradually and consistently increased their maintenance fees over the last decade. SAP has not.

Gartner believes SAP considered that it had the power to unilaterally dictate the terms of support agreements with customers because it assumed customer lock-in would hold customers. SAP felt that an increase was justified because of the more complex environment in which it has to provide support today. SAP now realizes that it has to prove clearer evidence of value for the increase if it is to regain customer trust and future discretionary spending.

SUGEN is not a legal entity and has no formal right to contract on behalf of the customer base. It is, however, playing a key role in reshaping the pricing terms and benchmarking process. SAP customers must understand what SUGEN is, because how it works with SAP will have a significant impact on maintenance fees.

A total of 100 customers selected by SUGEN will be measured against an index of KPI targets over a four-year period. The rest of the installed base has no part in the selection process. SAP will use the results of the 100 customers to justify the increases for the rest of the customer base. Gartner believes that customers could receive priority treatment from SAP during the course of the measurement period, which means that other customers should not necessarily expect to get an equivalent level of service.

The Importance of the KPIs

The KPIs as they stand now are still rather vague, and we are unsure how they can be objectively assessed. The measurement model should be built on a strong existing support model like the Information Technology Infrastructure Library (ITIL). The KPIs should be independently audited.

Table 1 shows the KPIs announced by SAP and SUGEN on 29 April.

Table 1. KPIs Announced by SAP and SUGEN

Enterprise Support Value Drivers	SUGEN KPI
Business Continuity	Increase number of days without an outage
	Reduce mean time to resolve
	Reduce overall incidents
Business Process Improvement	Number of emergency changes
	Impact of change
	Number of failed changes
Innovation and Protection of Investment	On current technology stack

Enterprise Support Value Drivers	SUGEN KPI
	Number of redundant custom code/objects; functionality available on newer releases
Total Cost of Operations	CPU utilization and "overall power growth rate"
	Storage utilization and growth rate
	Run and maintenance work required for deploying support packages and enhancement packages

Source: SAP

The messaging from SAP is focused on proving "business value," but evidence of the link between the Enterprise Support offering and business value drivers is tenuous. The KPIs as they stand today illustrate value to IT organizations, but there remains a gap between this illustration and clear business value in cash terms. There should be another link in the model that says an improvement in a particular KPI provides a specific business value. These KPIs may make sense to an IT leader, but a CFO reviewing them would have difficulty understanding the business value — it looks like IT metrics, not business metrics. Although CFOs understand total cost of operations, this should be translated into quantifiable and/or full-time-equivalent (FTE) savings.

Other technology enhancements, such as virtualization, operating system, hardware and database advances, may lead to cost savings, and other support tools, such as Panaya, also promise cost savings. But it will be difficult to isolate the savings garnered by Enterprise Support, not to mention clearly identifying the business value. Linkage between the KPIs and the value drivers is not clear enough. In addition, the business value represented by the KPIs is limited at best and, at a minimum, needs more flushing out by SUGEN and SAP. It is not yet clear exactly how SAP and SUGEN will conduct the benchmark; the measurement/survey method is not yet finalized.

Gartner recommends that SAP customers monitor the progress of the SUGEN benchmark closely, but that they also perform their own benchmarking to validate how much savings they are receiving. Customers without independent benchmarking data from their environment will be at a disadvantage when negotiating with SAP. Measuring your organization will provide a more accurate picture of the value of Enterprise Support for your organization, and will enable you to use these measurements in negotiations.

The KPIs are malleable, and SAP is in a much stronger position to influence the measurement process than SUGEN or individual SAP customers. This makes the exercise seem like more of a drawn-out negotiation process than a precise, objective measurement benchmark exercise. We would not be surprised to see new rules emerge during the process. Gartner expects the 100 customers to exhibit some of the value SAP is promising, and SAP has too much riding on the effort to allow it to fail. It is difficult to predict the exact results of the KPI exercise, but it is likely to lead to an increase.

Of the possible outcomes of the exercise, one scenario is that the KPI index is met in its entirety. This would mean the increase would proceed as planned. Another scenario is that the KPI index shows improvement, but not to the full value. This would mean a partial increase, perhaps up to 19% or 20%. It's unlikely that there would be no improvement, because there is value in the new offering:

- Although SAP has the contractual right to the increase, customers have some options to negotiate.

- This saga has opened the door to negotiate on maintenance, something that SAP rarely did in the past.
- Use the contract negotiation process as an opportunity to negotiate better deals on extra software from SAP. Trade in as much shelfware as possible to reduce the impact of the fee increase on software you don't use. SAP needs to sell its newer products too, so you can use this to offset the cost of maintenance.
- Undertake your own benchmarking exercise, so that, if the value isn't evident in your site, you have some negotiating strength.
- Delay committing to any new fee terms, and work with your legal department to fend off increases for as long as possible. It is likely that by delaying you will have more clarity about whether Enterprise Support is working elsewhere, and how other organizations are coping. Involve your legal counsel and procurement management to work out how you want to deal with any contractual issues with SAP. Your legal and procurement teams need to be involved in any decision to delay increase maintenance payments.
- Some SAP customers have both the old contractual arrangements and the new Enterprise Support contract at 22% for new products bought in 2008 to 2009. These customers are in a good position to benchmark the true differentiating costs and service-level-agreement (SLA) levels, as they will have both service offerings in operation.
- If your company finds the SAP maintenance program untenable, look to withdraw altogether, and move to a third-party provider, understanding the significant impact of this move (see "Q&A on Switching to a Third Party for ERP, SCM and CRM Maintenance and Support Services"). This option will be of interest for a relatively small segment of the customer base.

The plan calls for a four-year measurement period. While perhaps enabling measurement of the KPIs over time, this creates some uncertainty and makes budgeting awkward. Few businesses remain constant over four years. Mergers, acquisitions, divestitures and changing business conditions will make benchmarking difficult, and the plan is a big commitment for the 100 customers involved. Gartner believes the KPI process will be fraught with difficulty, and that it will not be as transparent as the messaging suggests. The results will be negotiated, rather than empirically exact. All of this makes maintenance a topic for negotiation.

Table 1 shows the planned timeline, as announced by SAP, assuming that the KPIs are met.

Table 2. SAP Planned Timeline

Year	General Capital
2008	17.0%
2009	18.3%
2010	18.9%
2011	19.5%
2012	20.1%
2013	20.8%
2014	21.4%
2015	22.0%

Source: SAP

The Shelfware Challenge

Gartner suggests that clients use this as an opportunity to address the shelfware challenge. Many SAP customers have large amounts of shelfware on which they pay maintenance. Use this as an opportunity to negotiate a plan to help deploy these items. For example, negotiate that your shelfware will drop by 30% over three years as a condition of paying increased maintenance. One of the problems we often hear from clients is that it is difficult to get SAP sales resources to help customer IT position SAP software that has already been bought. Without this SAP sales support, it isn't surprising that there has been a rapid growth of niche vendors in the SAP customer base.

Users should require SAP and SUGEN to include shelfware deployment as a KPI; it is easy to measure and has an obvious value. SAP wants to demonstrate the value of maintenance, so users should insist that the No. 1 cause of valueless maintenance be addressed, namely, shelfware. There is no justification from a customer perspective for paying maintenance on it. If the shelfware deployment KPI is included in the benchmarks, SAP would have a new incentive to help customers deploy the shelfware. Also consider exchanging it for the seats and functionality you need (see "Reduce IT Spending on Software Shelfware Yearly Support Fees").

Use Your System Integrators

If you work with system integrators (SIs) as strategic partners, spend time discussing your plans with them. Understand how Enterprise Support, and especially Solution Manager, will impact your support model and your partners. Your SIs should have insight into what other organizations are doing. Learn from them. The Enterprise Support issue has made several organizations reconsider their SAP-centric IT strategy, so educate yourself about other solutions. It is important to understand the alternatives you have to SAP, as this strengthens your negotiating ability. Competition is often a good thing.

Bottom Line

Because of the maintenance fee increase, SAP has hampered customer relations. Thus, this new approach is to be welcomed, but there is still a long way to go until it can be called a success. The announcement has bought SAP some time, but the user community will require more clarity. However, if SAP delivers on the promise of Enterprise Support and proves its value, then it will be a significant competitive advantage. Despite SAP's commitment to clarity as the cornerstone of its marketing message, for many customers, Enterprise Support remains confusing. SAP's field organizations still have a lot of explaining to do.

RECOMMENDED READING

"New Benchmarking to Guide SAP Enterprise Support Fees"

"Application Software: Maintenance and Support Guidelines"

"Guidelines for Responding to SAP's Increased Maintenance Fees"

"Q&A on Switching to a Third Party for ERP, SCM and CRM Maintenance and Support Services"

"Findings From the Gartner Survey on SAP Enterprise Support"

Note 1 SUGEN

According to its website, SUGEN (<https://cw.sdn.sap.com/community/sugen>) was established in 2007 to foster the information exchange and best-practice sharing among SAP user groups and

to coordinate the collaboration with SAP for strategic topics. It is a network of 12 user group communities across six continents.

Note 2

User Group and Support

SAP describes Enterprise Support key components as:

- Run SAP operations methodology providing industry-specific best practices, based on the SAP standards for solution operations
- Mission-critical support with continuous quality checks, SLAs, a support advisory and 24/7 online knowledge hubs
- SAP Solution Manager, a standards-based platform for SAP and non-SAP applications providing remote supportability, remote diagnostics and 24/7 root cause analysis, ITIL support comprehensive testing capabilities, IT governance and reporting

See "SAP Support Offering Extends Solution Management Beyond SAP" and "SAP Enterprise Support Becomes a Common Support Platform for the Client Base" for more background on Enterprise Support.

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