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SAP customer unrest: How did we get here?

By Dale Vile

Introduction

When I worked for JD Edwards, then SAP, back in the late 90's, I firmly believed that it was always good practice for customers to stay current with their ERP software. Like all good employees, I could instantly rattle off the reasons for this when required – you'd have access to the latest features, ensure continued support, reduce the risk of disruptive upgrades later, and benefit from all of the strategic thinking that underpins the product roadmap.

Some customers accepted this logic and were quick to migrate following a new software release. Others would skip a couple of versions then catch up when it made sense for them. Then there were those who constantly seemed to dig their heels in and resist moving forward until they absolutely had to – at least that's what it looked like from the vendor's perspective.

Of course in reality, customers were making business decisions about where and how to spend finite budgets and resources. ERP migrations always come with a degree of cost, risk and disruption, and if a release was deemed not to be worth it, then customers stayed as they were. And so the game continued, with vendors incentivising their account teams to push constantly, and many customers continually pushing back.

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Following the money

When I jumped over into the industry analyst and research world, for a time I ran a program monitoring SAP customer activity on behalf of a big investment bank. Every quarter, the bank augmented public statements made by SAP with more detailed intelligence gathered directly from SAP's customers. This gave it a more robust view of what was going on in the field.

Beyond expansion plans (new sites, more users, additional modules, etc), two particularly key metrics we tracked were the uptake of new software versions and the level to which maintenance fees were being discounted at contract renewal time. Each of these were seen as indicators of customer commitment – an important consideration for investors looking at the strength and stability of existing revenue lines.

Upgrades and maintenance renewals are key indicators of customer commitment

Comparing notes on the situation today

A lot of this history came flooding back to me when I recently chatted with Scott Hays, someone else with an ERP background and familiar with the whole upgrade pursuit and evasion game from his time at Epicor Software. Today, Hays is a senior director at Rimini Street, a company best known for its third-party ERP support services, including for SAP. When we connected on LinkedIn, then set up a call to compare notes on what we're currently seeing in the market, I'm not sure either of us knew what to expect.

As it turned out, our views were pretty well aligned. As we shared perspectives, it brought home to me how much has changed over the years, and yet so much has stayed the same.

The one thing we agreed on was that SAP's focus on shareholders is now more pronounced than ever, to the point where customer interests are often sacrificed on the altar of safe and predictable ARR (annual recurring revenue). As Hays observed, ***"SAP is pursuing the cloud-based, bundled subscription model very aggressively. This is great for smaller, simpler applications where barriers to entry and barriers to exit are low, but is dangerous when applied to a large, complex software suite that ends up deeply embedded in a customer's business".***

One stop convenience or surrender of freedom?

Hays' comments were referring to programs like 'RISE with SAP' and 'GROW with SAP'. Within these, SAP delivers the entire systems and application stack as a cloud-centric offering on a subscription basis, together with process mining and other tools, plus bundled support, maintenance and other services.

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Integral to SAP's cloud delivery model is its Business Technology Platform (BTP), which is essentially a Platform-as-a-Service (PaaS) play that allows customers to extend SAP applications and/or build custom solutions. While the dependencies can be hard to get your head around, BTP can be considered an integral part of SAP's cloud offering.

For some customers, this kind of all-encompassing service is truly attractive as it means they no longer have to worry as much about systems-level operations, monitoring, security and so on. A lot of the stuff that makes SAP landscapes so challenging to run and change over time is taken care of once you sign the contract.

But all of this comes at a price, and not just in the form of direct fees. As Hays pointed out: ***"Once you sign up, you essentially lose control of your IT strategy and roadmap. Your ability to evolve your systems in the direction you want, at a pace that makes sense for your business, can be severely constrained. It's all dictated by SAP".***

Perhaps the most common sentiment we hear is not so much about SAP offering subscription services per se, but using more stick than carrot to 'encourage' uptake. The company tends to be quite selective in the commitments it makes regarding future support for traditional perpetual license software. Hays says: ***"I suspect the way SAP sellers are compensated reinforces behaviour that makes customers feel under pressure to relinquish their perpetual licenses and sign a subscription agreement".***

Some perceive SAP to be using more stick than carrot to 'encourage' a move to the subscription model

But you don't have to relinquish control

The good news is that there are alternatives to simply rolling over and taking whatever SAP decides to serve up next. Third-party support providers like Rimini Street can potentially help to sustain critical systems in a safe and efficient manner for those not yet ready or willing to move to the latest software. As Hays explained:

"By taking the major version upgrade decision off the table, customers immediately get more runway to optimize what they have and plan their modernization journey at their own pace. Specialist third-parties can do a better job of troubleshooting, tailoring support to your specific environment, and maintaining the right skills in the market to keep your existing SAP implementation running, protected, and performant".

I can't personally vouch for the claims of superior delivery, but the market for third-party support services is now mature and well-proven, and happy Rimini Street customers are not hard to find. Indeed, they often echo Hays' sentiments, particularly in relation to tailored support services to handle heavily customised environments.

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Getting older environments onto a firmer support footing also helps customers to avoid skills-related pinch-points. The challenge is that SAP has declared various deadlines by which customers need to migrate off older software versions. This not only forces the issue for some, it creates spikes in demand for skills that can lead to shortages and price hikes.

As Hays explained, ***"I think skilled SAP consultants see lots of dollar signs with the 2025 and 2027 deadlines. I'm encouraging companies to take those deadlines off the table by moving to third-party support. Why try to find and retain expensive resources during this crazy time?"***

An emerging new model

But keeping the lights on is obviously only part of the equation. The business doesn't stand still, and new requirements will undoubtedly emerge over time. With this in mind, it's interesting to consider how advances in systems architecture are beginning to shift mindsets in the enterprise software space.

The notion of 'composable ERP' has recently emerged as an idea to mix and match best-of-breed solutions to create a coherent business systems landscape. Modern integration technologies mean that data and process integrity can be maintained across individual applications and services that have open APIs and work to a common set of standards. SAP-based and non-SAP elements can then be pulled together to meet specific needs.

When I discussed this with Hays, he agreed: ***"You no longer need to take HR, analytics and AI from your core ERP vendor – it's now possible to create a portfolio of applications from different sources that work together in harmony. Provided attention is paid to the integration layer that translates between the different elements and manages data integrity, you can evolve capabilities in a much more incremental and flexible manner nowadays."***

He went on to say: ***"The trick is to create a solid platform that acts as the integration and data management backbone. Having an open, enterprise-wide platform and tooling allows you to prioritize innovation based on what's right for you rather than what suits SAP. It's often the difference between lock-in or having control of your own destiny."***

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Not just SAP

In the interests of fairness, we should wrap up by saying it's not just SAP that tries to persuade customers into premature upgrades and all-encompassing subscription arrangements that effectively lock them in. In our own research, most senior IT leaders complain about such self-serving vendor practices on the part of IT vendors. That said, many have become wise to the sales tactics used and have provided some great insights into key supplier management.

One of the most important principles I have learned over the years, however, is to never let any supplier dictate your agenda or schedule. Your own business requirements and priorities are what really matter, and they must always come first.

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