

Table of Contents

Preface	vii
Acknowledgements	xix
Prologue: The Happiest Place on Earth	xxi
Section I: And Still It Roars	1
Chapter 1: The Customer Pivot	3
Chapter 2: The SAP Pivot	13
Chapter 3: The SAP Economy — The Un-pivot	29
Case Studies Group A: Un-adopters	43
<i>Chapter A1: Customer Strategy – Flip It Off</i>	43
<i>Chapter A2: Customer Strategy – Freeze and Shrink</i>	53
Section II: A Brief History of the SAP Economy	57
Chapter 4: The Roaring 1990s	59
Chapter 5: The Tumultuous 2000s	73
Chapter 6: The HANA and Cloud 2010s	89
Case Studies Group B: Diversifiers	112
<i>Chapter B1: Customer Strategy – “Ring Fence” with Clouds</i>	112
<i>Chapter B2: Customer Strategy – Change the Talent Model</i>	118
<i>Chapter B3: Customer Strategy – Tiers of Joy</i>	121
<i>Chapter B4: Customer Strategy – Agility Through Best-of-Breed</i>	127

Section III: The Casualties of the SAP Economy	133
Chapter 7: Still Trying After All These Years	135
Chapter 8: The Slumber Party	151
Case Studies Group C: Pragmatists	174
<i>Chapter C1: Customer Strategy — Keep Relationship Analytical</i>	174
<i>Chapter C2: Customer Strategy — Keep Projects Low-Hype</i>	178
<i>Chapter C3: Customer Strategy — Rethink the Customer Experience</i>	181
<i>Chapter C4: Customer Strategy — Balance with Open Source and Commodity Technology</i>	187
Section IV: Root Cause Analysis	193
Chapter 9: SAP's Illusions	195
Chapter 10: SAP Partner Collusions	217
Chapter 11: SAP Market Watcher Omissions	243
Chapter 12: SAP Customer Permissions	265
Case Studies Group D: Committed	276
<i>Chapter D1: Customer Strategy — Align with SAP's Future</i>	276
<i>Chapter D2: Customer Strategy — Make SAP Dance to Your Business Tune</i>	279
Section V: A New World Beckons	285
Chapter 13: New Customer Priorities — From IT to OT	287
Chapter 14: The New SAP Economy	303
Chapter 15: The Long Shadow	309
Epilogue: The Eye of the Storm	315

Preface



I first thought about writing this book five years ago. In February 2009, I was invited to an SAP event in New York City where the company announced Business Suite 7, the latest version of its high-end ERP software that runs operations at many a Fortune 500 company and other enterprises. After the formal presentations, then-co-CEO Leo Apotheker sat down with a few of us analysts for Q&A.

Most of us wanted to talk about the recently announced maintenance price increase, which was proving unpopular with SAP customers, coming as it did in the deep recession. We also wanted to discuss why ECC6.0, their previous version of the ERP software, was seeing slow uptake among customers. But, Apotheker was irritated that none of us wanted to talk about Business Suite 7.

As I wrote the next day:

“Alternatively defensive and feisty, there was piss and vinegar that I hope Leo turns into action.

It started off with Leo accusing me of spreading “rumors” about SAP overruns and little productivity improvement in systems integrator (SI) work plans over the years. Forget that the legions of staff in the SAP ecosystem and the hundreds of billions of dollars and euros and yens in SAP customer TCO models confirm my “rumors.” Have done so for 15+ years now.

To my point that SAP’s efforts have done little to improve productivity in data migration, user acceptance testing and other implementation phases around core SAP functions, he proceeded to discuss tools SAP has delivered in many of the areas.

What about the fact that these tools have not driven significant productivity in SI proposals? Leo bravely said, “If we believe [a project] takes 500 days and another partner says it’s 5,000 days, I’ll do it for 500 and a fixed fee.”

To our point that in the field it often appears partner interests trump those of the customer, Leo was at his passionate best: “I’ve been in the field all my life. That monster out there [the field] is my creature. Loyalty is to the customer. The obligation is to the customer,” and “I don’t give a s**t if it’s Accenture or IBM. I care about the customer.”

Unlike some other analysts who were in that room, I am also a consultant to CIOs, helping them evaluate SAP and partner proposals. I had to smile through Apotheker’s brave talk.

Then it turned interesting. Apotheker emailed me to say that I should not have published my note — the conversation should have stayed private. That had not been communicated at the start of the meeting. In fact, some of the analysts in the room were live-tweeting the event. My column was already old news by the time it was published.

Nonetheless, I apologized in a follow-up post:

“We got the chance to ask him tough questions, see him come out swinging, show spunk in the blogger session. We want him to continue to be that way. In return we owe it to him to not have to defend every word he says in that frame of passion. And we can do so while providing our readers the spirit of what is being discussed.

We goofed. Sorry, Leo. I hope we can continue that level of open conversation. On our part, we will use better judgment in how we report it.”

Then it turned even more interesting. An SAP marketing executive called to ask if I would talk with Accenture and IBM and explain to them what had happened in the meeting. I grudgingly agreed. The calls never happened, but the damage was done. I was giving Apotheker credit for finally standing up to his partners as I had repeatedly asked over the years, and again SAP appeared to have backed down.

Despite those concerns, I did not write the SAP book at that time. Instead, I have written three books in the last five years, on technology-enabled innovation and the digital transformation journeys of companies. Also, I was convinced in 2009 that

SAP had peaked and customer investments post-recession on their SAP projects would be much more modest.

About that, I was dead wrong.

Earlier this year, I had a chance to build a model of “SAP Nation” — as Chapter 3 details. I was shocked that post-recession customers appear to have spent over a trillion dollars around SAP. This, when SAP’s own sales and deliverables have leveled off. When you compare how nicely IT costs via software-as-a-service (SaaS) applications, cloud infrastructures and mobile broadband have dropped in the last few years, you have to ask why those in the SAP economy have not followed that trend. Likewise, when you see all the front-office technology opportunities — in product and customer-facing areas — you wonder how many are being crowded out by the SAP back office. Those vexing questions are what has convinced me to finally write this book.

The book is organized into five sections and four groups of customer strategies.

Section I sets the stage and shows that in spite of the customer and SAP pivots, the SAP economy keeps marching to its own drumbeat. Chapter 1 shows where innovative customers are moving their IT investment. Chapter 2 shows a significant shift in SAP investment away from leadership in business applications to a focus on platforms and acquisitions. Chapter 3 details our model of the SAP economy.

Section II documents the growth of the SAP economy over the last three decades. Chapter 4 covers the 1990s, Chapter 5 the 2000s, and Chapter 6 the current decade.

Section III investigates whether the huge spend in the SAP economy has yielded commensurate payback. In Chapter 7 we see that, in spite of the large investment and decades of experience, the casualties in SAP project failures and write-offs

continue unabated. Chapter 8 covers the transformative waves of industrialization, consumerization, externalization and boardrooming of IT that have eluded many SAP customers.

Section IV looks at the root causes of how the SAP economy got to be so massive. Chapter 9 looks at SAP's own mistakes. Chapter 10 focuses on the role of partners in the SAP economy. Chapter 11 examines whether market watchers could have done more to highlight the bloat in the SAP economy. Chapter 12 evaluates why SAP customers have not done more to better manage the economics.

Section V looks at recent SAP and customer trends. Chapter 13 describes customers' shifting IT priorities. Chapter 14 shows a glimmer of hope as SAP moves to newer business models and start-up ecosystems. Chapter 15 presents likely future scenarios for the SAP economy.

My model of the economy led me to call executives at SAP customers — some that I have consulted with and several others. I wanted to hear what they were doing to optimize their SAP spend. Based on their feedback, I have classified their strategies in Case Study Groups A-D in four customer profiles:

- Un-adopters
- Diversifiers
- Pragmatists
- Committed

Each of the alphabetic-section chapters describes various customer strategies — some are doubling-down and investing in SAP's in-memory analytics, some are consolidating SAP instances, others are implementing cloud solutions around SAP, and still others are moving away from SAP. Figure 1

below shows many of the customers we profile across those four categories.

Customer Strategies			
Un-adopters	Diversifiers	Pragmatists	Committed
<p>A1 – Flip it off <i>Inteva Products</i> <i>Jefferson County, AL</i> <i>Middlesbrough Council</i></p> <p>A2 – Freeze and Shrink <i>Color Spot Nurseries</i> <i>United Biscuits</i> <i>Embraer</i></p>	<p>B1 – “Ring Fence” with clouds <i>HP</i></p> <p>B2 – Change Talent Model <i>AstraZeneca</i></p> <p>B3 – Tiers of Joy <i>ABS-CBN</i> <i>Delta Airlines</i> <i>Microsoft</i> <i>The Würth Group</i></p> <p>B4 – Best of Breed for agility <i>Schneider Electric</i></p>	<p>C1 – Keep relationship analytical <i>CLP Group</i></p> <p>C2 – Keep projects low-hype <i>DeVry Education Group</i></p> <p>C3 – Rethink the Customer Experience <i>DigitalGlobe</i></p> <p>C4 – Balance with Open Source and commodity technology <i>British Gas</i></p>	<p>D1 – Align with SAPs Future <i>Burberry’s</i> <i>John Deere</i></p> <p>D2 – Make SAP dance to your business tune <i>Endo International</i></p>

Figure 1

Credit: Deal Architect

We also profile strategies at companies like Big Heart Pet Brands, BP, Flextronics, GE, Lexmark and Unilever in other parts of the book. The majority of the case studies were developed from interviews with executives conducted specifically for this book. For the others, the material was collated from presentations given by their executives or from content where they are quoted.

One could ask, “What’s a trillion dollars when the software runs so much of the Fortune 500?” It is a good question till you shade it against the fact that the Fortune 500 for the *first time ever* reported total profits of a trillion dollars — barely — in 2013.

Earlier this year, I was talking to a German journalist about impressive modern-day factories, and I told him the data centers at Google, Facebook, and Amazon are impressive “factories.” These 500,000-square-foot behemoths, servicing billions of users, are supported by a handful of staff with the latest in cooling efficiencies and security features. In contrast, the SAP economy is people-intensive, with labor constituting 70 percent of the costs in our model. It also lags behind world-class benchmarks on most computing, network and other components.

Some readers may argue it’s not all about economics; what about speed and agility? SAP’s HANA is blazing fast (indeed, it is short for High-Performance Analytic Appliance). True, but that is SAP’s future. Only a few thousand of its 250,000 customers have adopted it. The vast majority of SAP’s customers are stuck with its older products. At Gartner in the late 1990s, we snarkily compared using SAP to pouring concrete around your feet. Fifteen years later, the expression is still in use!

And speaking of time, the five-year delay in writing this book means it is now aligned with my 25th anniversary of “meeting” SAP. In 1989, while on assignment with Price Waterhouse in London, I led a team to set up SAP R/2 and McCormack & Dodge (M&D) prototypes on our mainframe in our brand-new Docklands data center.

So, the book has turned into a bit of a retrospective for me. For the book research:

- I revisited archives from my Software Intelligence Group at Price Waterhouse that analyzed emerging client/server applications from 1993–1995.

- I reviewed Walldorf (SAP headquarters) visit notes and many research papers on SAP from my stint at Gartner from 1995–2000.
- I unearthed documents from our start-up IQ4hire from 2001–2003 where we had built tools to help customers select systems integration services.
- I dusted off notes from many visits to SAP application management and hosting firms around the world as part of consulting services provided by my firm, Deal Architect.
- I reread my blog entries from Sapphire Now trips and SAP meetings over the last decade.

In a column I wrote for *InformationWeek* earlier this year about *The Digital Enterprise*, a book I helped write for the CEO of Software AG, I noted that “I found a surprising sentiment in most of these conversations: joy. To them, IT is fun and profitable again.” A reader commented on the column “Did we just use the word “joy” in an IT article, Vinnie?”

In contrast, the emotions to describe interviewing for and writing this book would be “bittersweet” and “puzzlement.” The walk down memory lane allowed me to connect with a number of colleagues and clients from my past. But, the research also exposed a lot of pain in the SAP customer base. My interviews for innovation books tend to be excited and positive. For this book, many of the conversations were defensive and guarded.

And, I had a gnawing sense of “How was this allowed to go on and on?” The initial IT failure of the Obamacare-related HealthCare.gov got a relentless amount of media, political, and business scrutiny. That was reported as a \$1 billion project (even after the overruns). In contrast, the SAP economy has

had significantly more write-offs and waste. Why has it not been seen anywhere near the scrutiny? How did a vendor, born and raised in German efficiency, with an intense product focus on controlling, costing, and compliance allow this much waste in its own economy? And, how have so many sophisticated customers tolerated the inefficiencies for so long?

Conversely, several customers I interviewed asked “How come so few alternatives have emerged to SAP?” SAP grew prominent by killing off siloed vendors like MSA and Cullinet. It overcame challenges from best-of-breed players like Siebel and i2. The recent wave of cloud challengers — Workday, Salesforce.com, NetSuite, ServiceNow, Plex Systems, Kenandy, Kinaxis and others — are merely nibbling around the edges of SAP. Few have launched a full frontal assault. I have been told that several SAP customers have called and pleaded with these cloud players to expand their functional footprint. Gas car buyers are waiting for electric options, but all they see so far are hybrids, not a full replacement.

Of course, if you were to pose such an excuse to executives at Infor, Microsoft, Oracle, Syspro, Unit4, and others who offer full ERP suites, they would likely say “hogwash!” They would say that’s just a convenient SAP customer defense of the status quo.

Even if they stay with SAP, customers have options to optimize their environments, and many of the case studies in the book showcase that ability.

In many ways, the effort to tame SAP and its partners is an epic battle to reshape back-office IT and to refocus resources on product- and customer-centric, front-office digital technologies. As Daru (as he is known) from BP describes in Chapter 1, it’s about focus on the “coal-face” — the front office. And, as Bill Ruh of GE describes in Chapter 13, it’s about moving from IT to

OT (operational technology). The customer strategies described in the book can also be applied to optimizing other IT costs beyond the SAP footprint.

As I reviewed decades of archives, I found myself admiring the architectural brilliance SAP co-founder Dr. Plattner has displayed over four decades. He was a visionary when SAP developed a real-time system in the 1970s, when most U.S. vendors were in batch mode and companies planned on month-end closing of books. He was farsighted again, in the late 1980s, when he invested in UNIX and R/3 as he saw IBM and the mainframe fading. And yet again, more recently, with HANA.

In fact, the company has had no lack of impressive leadership. You have to respect the global enterprise that SAP ex-CEO Dr. Henning Kagermann helped establish. I have had a chance to watch the even more impressive work he has done after leaving SAP at acatech, the German National Academy of Science and Engineering, as I describe in Chapter 2. Even with his short tenures as CEO at SAP and at HP, you have to respect the enduring customer relationships Leo Apotheker helped build at SAP. And, new SAP CEO Bill McDermott was an entrepreneur even as a teen, and brings a new sense of urgency and optimism.

The fact is that SAP has done many things right, and the book acknowledges those along with the many other things it could have done better. The “done better” part was astutely summarized by my wife, who commented, during an early-draft “readability” review of this book: “This is such a contrast to the Apple experience. Apple must tightly manage its suppliers and the store with all its apps. The only flaw I can think of is the initial problems it had with AT&T around the iPhone. In

SAP's case, the controls around its partners appear so loose. I bet there is plenty of AT&T-type performance."

She is right. SAP has a tendency to write code, and then hand it over to its partners. It fails to think enough about customer deployment issues. Worse, it lets customers fend for themselves in dealing with its partners. Many SAP customers have not done well negotiating with or monitoring hardware vendors, hosting firms, telco carriers, offshore application management vendors, etc. In fact, it has been suggested that unlike Ford, for SAP, "Partners are Job #1." Partner interests, it would appear, trump those of its customers. The sum total of partners' inefficiencies explains much of the excess in the SAP economy.

So, what was my motivation in writing this book? Certainly not to give SAP's competitors something to gloat about. In fact, though Oracle is a sponsor of our blogs (as are Cognizant, Workday, Infor, and several other technology vendors), I deliberately avoided reaching out to executives at Oracle for commentary.

My hope is CEOs and directors at SAP customers emulate Mike McNamara, CEO of Flextronics (see Chapter 1), when he says "keep your hands on the IT wheel." Or, to be like Rajiv De Silva, CEO at Endo (see Chapter D2), who demanded a detailed project review before approving continued funding. In fact, I hope customers/readers pore through all the optimization strategies profiled in Sections A through D and help to reverse the "business as usual" that I estimate costs SAP customers over \$200 billion a year.

While some of the case studies in the book are reporting better than 50 percent savings, let's aim at shaving just 10 percent from the SAP economy. What could enterprises do with \$20

billion a year? My personal preference is that they use it toward innovation projects that give me fodder for future books! But, seriously, there are limitless worthwhile causes and initiatives for CEOs and boards to pursue. As Albert Camus wrote “In the midst of winter, I found there was, within me, an invincible summer.” So, let’s look forward to the many opportunities to streamline SAP Nation.

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