

May 29, 2008

Enhancement Packages Improve SAP Upgrade Value

by R "Ray" Wang

for Business Process & Applications Professionals



May 29, 2008

Enhancement Packages Improve SAP Upgrade Value

This is the first document in the "Understanding The Future World Of SAP's Business Suite" series.

by **R "Ray" Wang**

with Paul D. Hamerman and Meghan Donnelly

EXECUTIVE SUMMARY

By 2009, the majority of SAP customers will face the end of standard support and extended support arrangements. To take advantage of service-oriented architecture (SOA) and SAP ERP 6.0, customers will have to move on to SAP NetWeaver 7.0, SAP's new technical foundation. However, business process and applications professionals often struggle to find business drivers beyond relief from vendor-imposed deadlines, build a case for upgrades, and overcome enterprise resource planning (ERP) upgrade fatigue. One of the key changes in SAP's upgrade program is enhancement packages, a mechanism that provides for more frequent software updates in smaller doses. Enhancement packages allow SAP ERP 6.0 customers to selectively adopt new functionality with less disruption.

TABLE OF CONTENTS

2 Customers Face Fatigue With Traditional ERP Upgrades But Must Move Soon

Many SAP Customers Intend To Upgrade After 2008

Like Other ERP Customers, SAP Customers Often Find Upgrades Disruptive To The Business

... But Customers Cite The End Of Standard Support As Their Main Rationale For Upgrading

6 Enhancement Packages Represent A Major Shift In SAP's Release Strategy

SAP Delivers Four Themes Of Innovation With Each Enhancement Package

RECOMMENDATIONS

8 Customers Committed To SAP Should Take Advantage Of Enhancement Packs

9 SAP Customers Not Ready For Upgrades Should Consider Pragmatic Options

WHAT IT MEANS

10 SaaS Vendors Pressure Traditional ISVs To Innovate Toward Dynamic Apps

NOTES & RESOURCES

Forrester interviewed Oracle, SAP, and 131 user companies through inquiries, consulting engagements, and at SAPPHERE 2008, SAP's twentieth annual user conference.

Related Research Documents

["SAP Raises Maintenance Fees For New Customers"](#)

March 3, 2008

["Forrester's Long-Term Packaged Applications Strategy Framework"](#)

December 11, 2007

["The Forrester Wave™: Application Server Platforms, Q3 2007"](#)

July 11, 2007

["Application Upgrades: When And Why"](#)

December 18, 2006

CUSTOMERS FACE FATIGUE WITH TRADITIONAL ERP UPGRADES BUT MUST MOVE SOON

Business process and applications professionals often find ERP upgrades for mid-size to large enterprises a challenging, tedious, and costly mandate. Factors deterring and delaying upgrades include upgrade project costs, customizations, and business cycles and release maturity.¹ A big driver of these decisions is the vendor-imposed release support schedules, which require customers to upgrade within a five- to-eight-year time frame. Key reasons to upgrade include avoidance of compliance and technical risks, business benefits, and improved technology.

Many SAP Customers Intend To Upgrade After 2008

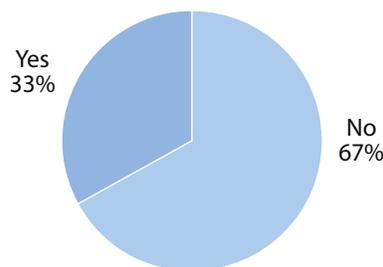
From January to May 2008, Forrester spoke with 131 SAP users during inquiries, client engagements, and at SAPPHERE 2008, SAP's twentieth annual user conference. The intent: Determine their penchant for upgrading and the issues that drive them to move toward an upgrade or to wait. Sixty-seven percent of SAP customers indicated that they would not consider an upgrade in 2008 (see Figure 1). Forrester internal surveys also show that 20% of SAP customers have adopted the latest release of SAP ERP 6.0, which is good progress for upgrade uptake (see Figure 2). Those SAP users who choose to upgrade after 2009 will have to negotiate customer-specific maintenance and support or buy "shelfware" to avoid additional maintenance hikes.

Like Other ERP Customers, SAP Customers Often Find Upgrades Disruptive To The Business

The ERP and SAP world has increased in complexity since most users implemented their first SAP R/3 instance. Back then, users dealt with just the application and SAP BASIS components. Today, SAP ERP 6.0 users must navigate a world that includes a sophisticated SAP NetWeaver stack, extension sets, the Enterprise Central Component (ECC), composite apps, and other "edge" applications. Further, most business process and applications professionals face multiple instances across multiple templates that have become heavily customized. The end result is that many customers do not consider upgrades because customers:

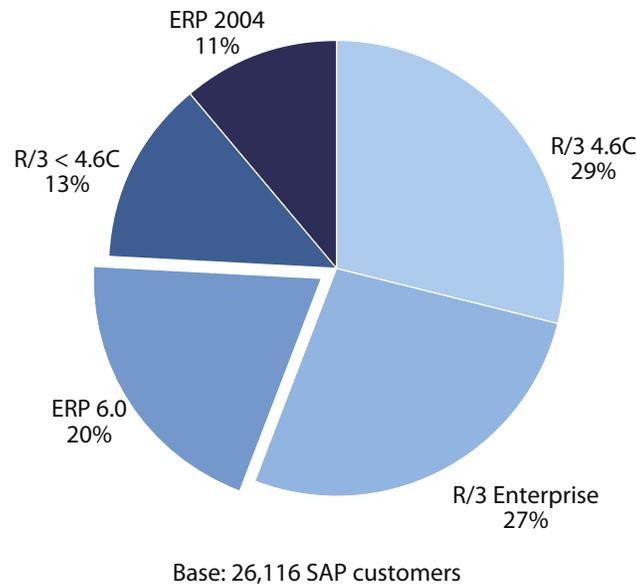
Figure 1 One-Third Of SAP Customers Are Considering Upgrading In 2008

"Are you considering an SAP upgrade this year?"



Base: 131 SAP customers

Figure 2 About 20% Of SAP Customers Have Upgraded To ERP 6.0 In The Last Two Years



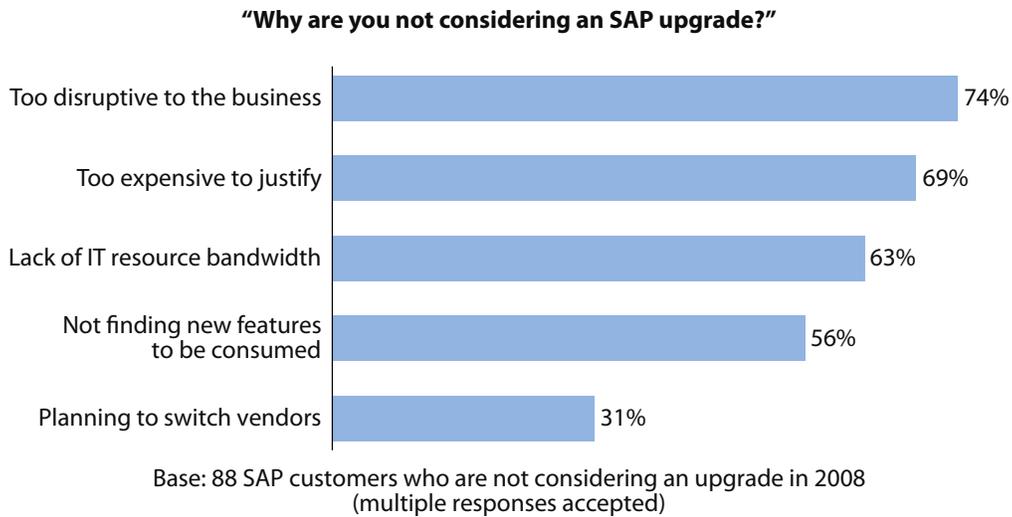
Source: Forrester's estimates based on historical data.

45741

Source: Forrester Research, Inc.

- **Find upgrades disruptive to the business.** SAP R/3 customers have faced a series of 24- to 36-month upgrade cycles with incremental additive improvements. Seventy-four percent of respondents not considering an upgrade found the process burdensome, given the large size and complexity of the upgrade modules (see Figure 3). Upgrade components often require significant engagement of business teams not only in functional configuration but also in system downtime.
- **Find upgrades expensive to justify.** Of those not considering an upgrade, 69% of respondents found new licensing models cost prohibitive. The move from user-based to usage-based metrics and a change in named user types adds significant costs for these customers. In addition, most SAP installs implemented pre-Y2K have significant customizations and numerous bolt-ons. Each upgrade requires users to apply full-on regression testing — leading to months of preparation and evaluation for each upgrade on each instance.
- **Lack IT resource bandwidth.** About 63% of SAP customers not considering an upgrade expressed that they have limited resources to keep their SAP apps up-to-date. Many of these enterprises have embarked on a host of other new initiatives focused on business intelligence, collaboration, and content management. While ERP upgrades are important, limited resources may keep users from immediately upgrading.

Figure 3 Like Most ERP Customers, SAP Customers Suffer From “Upgrade Fatigue”



45741

Source: Forrester Research, Inc.

- **Are running out of new features to consume.** Fifty-six percent of respondents not considering an upgrade cited lack of new functionality as a driver for their decision. Customers who have a stable SAP FI/CO and human resources (HR) core often find little new functionality to adopt. Many have mixed independent software vendor (ISV) environments for specialized areas such as Siebel, salesforce.com for customer relationship management (CRM), or i2 Technologies and Manhattan Associates for supply chain management (SCM).
- **Are planning to switch vendors.** Of respondents who are not considering an upgrade, about 31% are considering switching out SAP instances in spoke environments such as subsidiaries, divisions, or plants. Anecdotally from the survey, the lack and cost of resources and the high cost of maintaining an SAP environment led many respondents to seek options from other leading ERP vendors.

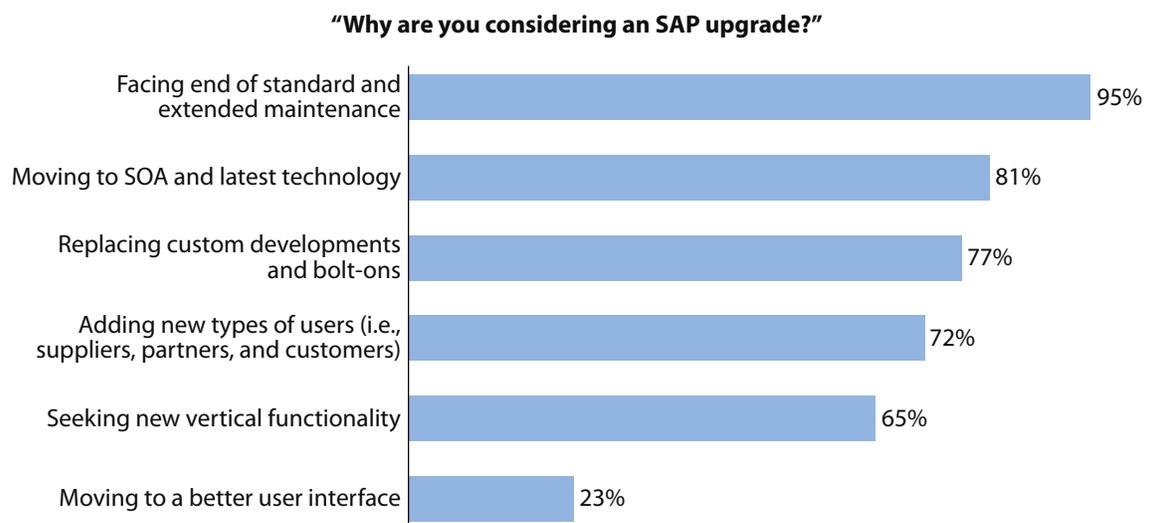
... But Customers Cite The End Of Standard Support As Their Main Rationale For Upgrading

For the 33% of respondents who did consider upgrades in 2008, rationale to upgrade arose from strong business drivers. These business drivers ranged from compliance with vendor-imposed mandates to the expansion of SAP usage throughout the enterprise. Common business drivers from survey respondents include:

- **Facing the end of standard and extended maintenance.** Vendor-imposed end-of-support deadlines were one of the driving forces for considering an upgrade for 95% of the respondents who are considering upgrades (see Figure 4). Extended maintenance for SAP R/3 4.6C users stops at the end of 2009. For an additional 2% fee, SAP R/3 4.7 users can extend their maintenance until the end of March 2010.

- **Moving to SOA and the latest technology.** Of the customers who are considering upgrading, the allure of enterprise SOA and the movement to adopt NetWeaver encouraged 81% to consider upgrading. Respondents often cited the need to improve integration among legacy applications as well as other systems. Most of these respondents planned for at least a technical upgrade to SAP NetWeaver 7.0.
- **Replacing custom development and bolt-ons.** Newer capabilities drive customers to retire costly customizations and bolt-ons. For example, new features such as travel management, recruiting, and eLearning come standard with SAP ERP 6.0.
- **Adding new types of users such as suppliers, partners, and customers.** Increased collaboration along the value chain requires that the business provide new stakeholders with access to systems and key performance information. New features in SAP ERP 6.0 improve collaboration across business processes such as opportunity to cash with availability-to-promise capabilities.
- **Seeking new vertical functionality.** All 26 of SAP’s industry-specific modules have been moved to a SAP ERP 6.0 base from SAP R/3 4.7. Users must be on the latest release to uptake additional capabilities and future enhancements.
- **Moving to a better user interface (UI).** In the past, customers have had to use a patchwork of SAP and non-SAP UI technologies from SAP Web DynPro to NetWeaver Portal, SAP Interactive Forms by Adobe, and GuiXT. SAP ERP 6.0 improves the user interface, moving new components toward a standard “NOVA” look and feel using Web DynPro as the basis for design.

Figure 4 The Top Six Reasons SAP Customers Are Considering Upgrades



Base: 43 SAP customers who are considering an upgrade in 2008
(multiple responses accepted)

ENHANCEMENT PACKAGES REPRESENT A MAJOR SHIFT IN SAP'S RELEASE STRATEGY

When SAP confirmed that it would no longer release a mySAP ERP 2007 version (i.e., the successor to SAP ERP 6.0, formerly mySAP 2005), it made a commitment to *extend* the stable ERP core via enhancement packages (EHPs) until 2012 and reduce the burden of upgrades.² Additionally, the intent was to give customers the option to consume more frequent but smaller collections of enhancements. A key mechanism for delivering these enhancements is the Switch Framework in SAP NetWeaver 7.0 (a.k.a., SAP NetWeaver 2004s) delivered with SAP ERP 6.0. The Switch Framework allows customers to selectively enable or skip new enhancement pack functionality via configuration utilities.

Incremental updates are not a new innovation in enterprise applications — Oracle has had a similar strategy in place for its E-Business Suite for several years. While these enhancement packages may seem similar in concept to Oracle's Application Technology Family Packs or SAP's support packages, there are key differences in frequency, delivery mechanism, content, and user consumption. For example, Oracle Application Family Packs include maintenance fixes as well as new functionality and must be consumed in their entirety. In the future, SAP support packages will be delivered side-by-side with EHPs and focus only on minor changes such as legal updates, bug fixes, and country-specific payroll tax changes. Customers who have used EHPs cite considerable advantages that include:

- **Greater frequency of updates delivered.** Though the updates they deliver are not as frequent as those provided by software-as-a-service (SaaS) vendors, EHPs provide more flexibility in enablement. To date, SAP has delivered two EHPs per year and is about to release its fourth EHP later in 2008. Customers no longer have to wait 24 to 36 months for critical functionality. One EMEA discrete manufacturer cited “increased frequency and earlier delivery of functionality” as a significant improvement over waiting for a full application release.
- **Customer-directed uptake enabled.** EHPs also differ from the cumbersome R/3 Extension Sets that delivered incremental functional enhancements but required constant upgrades to the latest extension set in order to avoid support and delivery problems due to unfettered multiple versions.³ More importantly, users only have to test the EHPs that they uptake. An SAP customer, Tchibo, cited isolation of testing as a key benefit: “Unlike the old extension sets which had issues with activation, this time [deploying the EHP] was much easier. We added the travel and new HR capabilities and tested before we activated” (Senior consultant of human resources, Tchibo).
- **Fewer upgrade resources required.** Smaller chunks of upgrade require fewer resources and less corporate buy-in for deployment. SAP estimates that 80% of customers on SAP ERP 6.0 self-run the enhancement package uptake process and use the Upgrade Information Center. Many customers also use the latest version of SAP Solution Manager to manage the overall process.

- **Delivery of EHPs to the rest of the SAP business suite promised.** Conversations with executives at SAPPHIRE 2008 indicated that the future road map for ERP remains a work in progress. However, Forrester believes that SAP plans to leverage the Switch Framework to provide EHPs for the rest of the business suite by 2009. Business process and applications professionals can expect SAP to iron out the minor compatibility hiccups with customizations, industries, and country variant of industries prior to delivering capabilities for CRM and SCM. As most customers expect, SAP promises that customers who have licensed the functionality and remain current on maintenance will receive improvements to existing functionality at no charge to them.

SAP Delivers Four Themes Of Innovation With Each Enhancement Package

To date, 619 business function sets and 57 enterprise service bundles are available to customers via three enhancement packs for SAP ERP 6.0. These constitute over 1,400 new optional capabilities. Each enhancement package spans a wide range of breadth and depth (see Figure 5). Although SAP reports over 5,400 shipments and downloads for EHP 1 and over 4,000 shipments and downloads for EHP 2, Forrester believes actual production numbers for these EHPs remain low.⁴ From simple feature extension to new modules, these EHPs fall across four themes:

- **Simplification and usability.** Enhancements in this theme seek to simplify SAP's complex UI by bringing together common screens and reducing the overall number of clicks per transaction. Key processes slated for improvements include order to cash (EHP 2), procure to pay (EHP 3), attract to perform (EHP 4), and accounting to reporting (EHP 5). Other usability improvements include role-based access and more stable Web DynPro usability enhancements.
- **Cross-industry (horizontal) functional enhancements.** These themes represent horizontal capabilities across industries and processes. One example of new functionality is the newly enhanced closing cockpit, which provides automation and collaboration for financial closes. The controller monitor and control is provided — including process execution (i.e., central process scheduler) and task execution via the portal with subunit accountants. SAP delivers all the underlying elements for this new capability. Another example of new functionality that falls under this theme is the delivery of talent management across several enhancement packages.
- **Industry-specific enhancements.** Industry-specific themes deliver vertical-specific functionality. In EHP 3, some examples include catch weight management in inventory accounting for consumer products, eLog book integration for transportation, and technical integration between SAP IS Oil and SAP IS Utilities (ISU).
- **New enterprise services.** Each EHP delivers additional enterprise services via service definitions or from partners. In one example, Audi is taking definitions around order to cash and linking these to e-invoicing capabilities; this results in an order-to-cash-style customer-facing portal.

Figure 5 SAP Enhancement Package Road Map

	Q4 2006	Q4 2007	Q2 2008	Estimated Q4 2008	Estimated Q3 2009
Enhancement package (EHP)	EHP 1	EHP 2	EHP 3	EHP 4	EHP 5
Simplification	Role-based access	• Order to cash • Simplified work center for sales	Procure to pay	Attract to perform	Accounting to reporting
Horizontal functionality	HR shared services	• eLearning with Adobe Connect • Banking relationship mgmt and financial supply chain	• Fast closing and treasury mgmt • Recruiting and performance mgmt	• Compensation, talent mgmt, and workforce planning • Financial shared services and financial MDM • Corporate tax mgmt	Treasury
Industry-specific enhancements	Retail	• Retail • Trade • Utilities • Media • Travel • Telecom	Trading industries	Discrete industries	Process industries
Enterprise SOA	Adaptive manufacturing	Order to cash	Procure to pay	Financial shared services	TBD

Note: These are highlight descriptions. Each new EHP serves multiple industries and functional areas.

Source: SAP

45741

Source: Forrester Research, Inc.

RECOMMENDATIONS

CUSTOMERS COMMITTED TO SAP SHOULD TAKE ADVANTAGE OF ENHANCEMENT PACKS

SAP has made a considerable investment in simplifying the upgrade process. New functionality, progression to SOA, and enhancement packages provide significant incentives to upgrade to SAP ERP 6.0. Customers seeking to remain and innovate on SAP should:

- **Consider shared services as a business driver for the upgrade.** Many instance consolidation projects begin with shared services as the business driver for enterprisewide change. Instance consolidation allows for improved shared services delivery of end-user support and the subsequent reduction in costs. Typical shared services include back-office functions such as payroll, HR, finance, and purchasing.
- **Keep long-term packaged apps strategies in mind.** Use Forrester’s long-term packaged applications strategy framework to gauge progress across not only the business case for upgrades but also across the organization’s overall project portfolio.⁵

- **Start with a technical upgrade to SAP NetWeaver 7.0.** SAP customers not looking to perform the full upgrade to SAP ERP 6.0 should at least perform the technical upgrade. The Switch Framework in SAP NetWeaver 7.0 delivered with SAP ERP 6.0 provides the infrastructure for enhancement packages. SAP assures Forrester that customers who have implemented previous versions of SAP NetWeaver will be supported and that uptake of SAP ERP 6.0 results in an automatic replacement of older versions of SAP NetWeaver with SAP NetWeaver 7.0.
- **Consider instance consolidation with upgrades.** With the arrival of vendor-imposed support deadlines nearing in 2009, now is the time to consider instance consolidation with your upgrade strategy. Related projects often include data archiving, master data management, and process optimization with an eye toward identifying business intelligence and reporting requirements. Leverage Forrester's Total Economic Impact™ (TEI) of instance consolidation to project future savings.⁶
- **Focus on end-user experience.** Begin the upgrade process by thinking about how to improve usability. Common benefits include improving and streamlining user experience, integrating with office productivity tools, and providing new user paradigms.

SAP CUSTOMERS NOT READY FOR UPGRADES SHOULD CONSIDER PRAGMATIC OPTIONS

Customers who have highly customized environments, who have little business-case rationale for change, or who face extreme upgrade fatigue should consider alternatives such as:

- **Seeking customer-specific support.** Despite vendor pressure to upgrade to the latest release, many customers have negotiated with SAP for customer-specific maintenance options. Keep in mind that SAP would prefer to retain existing customers. In fact, Siemens, one of SAP's oldest customers, remains on SAP R/2 with customer-specific maintenance. Forrester recommends that customers adopt a time-and-materials approach to maintenance or consider options that would incur costs that are lower than the current extended maintenance costs. Forrester's enterprise software licensee bill of rights recommends negotiating strategies that could help customers in this endeavor.⁷
- **Considering third-party maintenance options when appropriate.** In scenarios where an ERP vendor will not provide customers with a financially agreeable customer-specific maintenance option or where there is no planned upgrade path, customers should consider the emerging third-party maintenance market. Another scenario exists when the application is highly customized and does not have a cost-effective upgrade path: One vendor, Rimini Street, plans to support SAP customers on SAP R/3 by early 2009, and another vendor, SYSTIME, already supports this option. As with PeopleSoft and JD Edwards third-party support, most providers offer to save customers up to half of existing maintenance costs.

- **Contemplating a full applications replacement.** In the worst-case scenario, your ERP vendor may not provide a cost-effective support and upgrade path for customers with specialized needs. As a negotiating tactic to gain leverage and reduce the cost of ERP customer-specific maintenance, some Forrester clients have introduced the possibility of a vendor replacement. Clients should not consider this risky option unless they are serious enough to actually switch vendors. Keep in mind that, in eight years, you'll probably encounter the same issue with the new vendor, so it will be important to agree to more favorable contracting terms as you move to the next generation of ERP.

WHAT IT MEANS

SAAS VENDORS PRESSURE TRADITIONAL ISVs TO INNOVATE TOWARD DYNAMIC APPS

SAP's investment in the Switch Framework for SAP NetWeaver 7.0 and resulting enhancement packages presents a clear case study of how traditional ISVs such as SAP are responding to innovations from SaaS vendors. Common SaaS innovations include subscription pricing, user-based pricing, infrastructure support, and frequent upgrades. For example, a typical SAP customer could mimic a "SaaS-like" experience by hosting on SAP, applying financing from Siemens, and using enhancement packages.⁸ The downside: SaaS customers would receive lower long-term cost due to multitenancy, broader partner ecosystems, and a richer user experience. The upside: SAP customers could choose which upgrades to uptake, could customize their code as they see fit, and could maintain their on-premise environments.

ENDNOTES

- ¹ To make complex upgrade decisions, Forrester recommends using a framework that takes into account the costs and project risks, along with the business benefits, risk avoidance, and flexibility. See the December 18, 2006, "[Applications Upgrades: When And Why](#)" report.
- ² At its TechEd'06, software giant SAP announced a revision to its current ERP release strategy. SAP confirmed that it will no longer release a mySAP ERP 2007 version, and future functional enhancements through 2010 will be delivered as optional enhancement packages on top of mySAP ERP 2005. This latest ERP release is built and delivered with the NetWeaver 2004s platform. See the September 19, 2006, "[SAP Revamps Its Release Strategy](#)" report.
- ³ When customers upgrade to a higher level of an extension, they must upgrade the extension set. For example, a company might deploy the SAP R/3 Enterprise Core plus the SAP R/3 Enterprise Extensions 1.10 for human resources, supply chain management, and financials. Later, the company wants to deploy SAP R/3 PLM Extension 2.00. It must then upgrade all the extensions to the 2.00 release level. This reduces the number and complexity of extension combinations that will prevent both support and delivery problems due to unfettered multiple versions. SAP R/3 Enterprise Core and the SAP R/3 Enterprise Extensions will be maintained through scheduled support package tracks. In previous SAP R/3 releases, there were two support package tracks, but SAP R/3 Enterprise will follow the separate support package tracks shown. Source: "SAP R/3 Enterprise provides customers with additional benefits," SAP INFO, May 13, 2002.

- ⁴ SAP plans to ship EHP 3 on May 30, 2008.
- ⁵ Forrester developed a framework of more than 150 applications strategy elements organized around the four pillars of a successful long-term packaged apps strategy: people, process, technology, and ecosystem. To breathe new life into your long-term packaged apps strategy — or generate a strategy if your organization lacks one — business process and applications professionals should use this framework and self-assessment designed to assess your current strategy, identify areas for improvement, and provide a baseline to track ongoing progress. See the December 11, 2007, “[Forrester’s Long-Term Packaged Applications Strategy Framework](#)” report.
- ⁶ A Total Economic Impact analysis of apps instance consolidation indicates that an organization will likely see benefits in annual revenue uplift, operational efficiencies, regulatory compliance, and business-IT alignment that need to be balanced against the costs in license fees, annual maintenance, training, support, and testing. Our analysis of a typical organization considering apps instance consolidation shows a significant return on investment (ROI) when organizations move from 10 or more instances to three or less instances. See the May 16, 2008, “[The ROI Of Packaged Apps Instance Consolidation](#)” report.
- ⁷ Forrester outlines a software licensee’s bill of rights that reflects Forrester’s clients’ best practices in this new IT environment. Because leverage wanes after the initial selection phase, CIOs and IT procurement professionals should immediately incorporate these best practices into the management of current vendor relationships and the wording of future vendor contracts. See the December 18, 2006, “[An Enterprise Software Licensee’s Bill Of Rights](#)” report.
- ⁸ Financing options are the newest front in the vendor war for a greater share of the IT budget. Recent Forrester research confirms that more and more enterprises of all sizes continue to evaluate SaaS to defer capital outlays and infrastructure costs. In response, many on-premise software companies are using financing to make the purchasing options appear more attractive. These vendors not only offer a variety of flexible payment programs through direct and partner channels but also offer to consolidate IT spending through program extensions that include the bundling of professional services, training, and in some cases, other parts of the technology stack that the vendor provides. Approach these financing options with the same rigor and due diligence that you would apply to any software negotiation. See the August 29, 2006, “[Assessing New Software Vendor Financing Options](#)” report.

FORRESTER®

Making Leaders Successful Every Day

Headquarters

Forrester Research, Inc.
400 Technology Square
Cambridge, MA 02139 USA
Tel: +1 617.613.6000
Fax: +1 617.613.5000
Email: forrester@forrester.com
Nasdaq symbol: FORR
www.forrester.com

Research and Sales Offices

Australia	Israel
Brazil	Japan
Canada	Korea
Denmark	The Netherlands
France	Switzerland
Germany	United Kingdom
Hong Kong	United States
India	

*For a complete list of worldwide locations,
visit www.forrester.com/about.*

For information on hard-copy or electronic reprints, please contact the Client Resource Center at +1 866.367.7378, +1 617.617.5730, or resourcecenter@forrester.com. We offer quantity discounts and special pricing for academic and nonprofit institutions.

Forrester Research, Inc. (Nasdaq: FORR) is an independent technology and market research company that provides pragmatic and forward-thinking advice to global leaders in business and technology. For more than 24 years, Forrester has been making leaders successful every day through its proprietary research, consulting, events, and peer-to-peer executive programs. For more information, visit www.forrester.com.