



SAP Enterprise Support Contracts: Counting the Real Costs

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To a chorus of disapproval, SAP unveiled on July 16 that all existing customers will have to pay more for their maintenance and support contracts. But what impact will SAP Enterprise Support really have on loyal SAP customers?

Well, we knew it was coming...

The vast majority of the company's customers chose SAP Standard Support for their software maintenance and support agreement, which is delivered by its Active Global Support organization and costs 17% of net license value per annum. On its 2Q earnings call, SAP said more than 350 new and existing customers had signed up for its more expensive premium support. The new SAP Enterprise Support costs 22% of net license value per annum, phased over four years. Still, though, let's not forget that the rest of the enterprise software vendors have been quietly getting away with 22% maintenance contracts forever.

As we reported previously (see "New SAP Support Contracts: Deal or No Deal?"), SAP recently brought its support products in line with the rest of the industry for net-new customers. So most installed base customers were joyfully wondering when it would be their turn to climb to 22% from 17% anyway.

What you get for your money

SAP Enterprise Support offers extras over and above SAP Standard Support. These additions, which are targeted at end-to-end support of a broader range of applications in a fully standardized way, include the following:

- Higher service levels for priority 1 and 2 (the most critical) support messages
- 24-by-7 coverage
- Detailed standard operations procedures
- Industry best practices for SAP operations (termed Run SAP)
- Enhanced support tools packaged into the new Solution Manager Enhanced Edition product, including additional test automation tools (available now), impact analysis tools for planning the implementation of enhancement packs and support packs (availability planned for August 2008), plus change control process traceability capabilities originally developed for the pharmaceutical industry (available now)

Customers with big investments in SAP already (especially large and critical production systems) may find there will be real benefits from these new support services, which are certainly superior to what the rest of the industry offers. At the same time, SAP is extending maintenance support for R/3 4.6c to the end of 2010 and R/3 4.70 (Enterprise) to end of March 2013.

The real problem here, though, is very simple: all companies in all industries remain under increasing business pressure to deliver more value at lower cost to their customers, with SAP no exception. The timing of this move suggests SAP clearly anticipates tougher times and new license revenue challenges ahead. But how can you sell these higher costs to your company?

The price tag

"How much will it really cost me?" you're asking. But the answer depends exactly on who you are and where you rank within the SAP installed base customer hierarchy.

The top tier of large enterprise customers

If you are lucky enough to be in the top tier of the installed base, you already hold a Gold Card and quite deservedly get the best treatment. You probably were informed of the move to Enterprise Support well before July 16, so you may already have negotiated a special deal with SAP and be able to stay on 17% for some years to come. Existing SAP MaxAttention customers are unaffected.

All other large enterprise and midsize customers

If you were smart, you might have seen this coming and have also been able to negotiate a special deal for your own maintenance contract. We also assume customers intending to buy additional software from SAP may have the opportunity to negotiate a delay of these net maintenance price increases as part of any new license deal.

But the majority of SAP customers will now have to get their calculators out to determine the net change in their

SAP lifecycle total cost of ownership from SAP Standard Support to SAP Enterprise Support. To reduce the impact, the company has graduated the increase to the new 22% from the current 17% by 8% increases each year for the next four years.

The reality is the effect on most IT budgets will be relatively small. The average company spends about 11% of its IT budget on software maintenance, with less than half designated for ERP software; desktop apps, telecomm, database, operating systems, middleware, and other applications make up the rest. An SAP customer is really looking at an 8% increase next year on a line item that is typically less than 5% of the overall IT budget. It's a net 29% overall spending increase by 2012, but it's unlikely to require a major reprioritization of IT investments.

To help companies get a sense of the relative impact of this maintenance change, we have prepared an example of a "typical" company. The financial assumptions that we used are based on a combination of data from AMR Research's annual IT spending survey and lots of IT budget discussions with our clients.

Here's what the typical company looks like as well as our predictions for how the price increase will affect its budget:

- Has \$5B in annual revenue
- Spends 3% of revenue on IT (\$150M per year)
- Spends 11% of its IT budget on overall software maintenance (\$16.5M)
- Spends about a third of that on SAP maintenance (\$5.5M)
- Has 8,000 SAP licensed users at \$4,000 per seat (\$32M in net license base)
- \$32M multiplied by 17% is \$5.44M per year in SAP maintenance fees
- In 2009, it will pay \$5.888M (\$32M multiplied by 18.4%)
- The maintenance increase for 2009 is \$448K
- The increased maintenance cost per user is \$56

We would not expect any customer to be happy about its maintenance bill going up by nearly half a million dollars in one year, but in the context of this company's \$150M IT budget, the impact is certainly manageable.

Other items to add to your to-do list

All SAP customers should use this price increase as an opportunity to revisit their SAP lifecycle plans and costs. We recommend the following:

- If you don't have such a long-term holistic plan, you must build one to have any credibility with your board (see "The Key Steps in Your ERP Lifecycle Plan").
- You should then update the plan with the cost projections to include the progressive increases in SAP support costs.
- Look for opportunities across the entire plan to reduce overall costs, such as in refreshing hardware, changing platforms, outtasking some activities, and investing in new software tools to automate operations.
- Carefully measure your actual usage of SAP software by all currently active end users and software engines. This is very time consuming, but it should be at least an annual process. Additional third-party tools may be needed to give an accurate, independent measurement. Compare actual usage against your existing license agreement. Review this with SAP to see if there is opportunity to reduce maintenance fees or negotiate any new license purchases.
- Monitor response times and quality of resolution of all support messages submitted to SAP to measure support improvement.
- Understand where you fit in SAP's installed base hierarchy and your consequent entitlements.

To justify the 22% price level, SAP has to prove it can consistently deliver all new services included in Enterprise Support, especially the Solution Manager product enhancements, and provide much better problem resolution than Standard Support. All of this must be done in a more personalized way (for most customers) and with global consistency. If not, customer loyalty will start to subside—dprior@amrresearch.com and jshepherd@amrresearch.com.