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SmartSpend™ Bulletin

Unlocking Savings on the SAP S/4HANA Conversion Journey

Enterprises have been slow to migrate to SAP S/4HANA, but that's changing. As customers strategize their migration, important considerations must be made as the SAP S/4HANA conversion roadmap is operationalized. The opportunity for overspending – or savings – can be material.

SAP's end-of-support deadline for its legacy application, ECC (the Business Suite version), is now 2027 – and that's prompting many enterprises to start strategizing conversions to S/4HANA. While recent research suggests nearly 7 in 10 customers are still running ECC, nearly 60 percent of those intend to migrate to S/4HANA over the next three years.[1]

The SAP S/4HANA conversion journey is a challenging one for customers. Capital cost is high and resource requirements are significant. But the writing is on the wall. SAP's S/4HANA environment is the future of its business and at the core of its product roadmap. Customers that want to continue to derive value from their SAP estate must get on board – and quickly given the complexities that surround customers' legacy SAP environments.

As companies determine their conversion strategy, they must overcome several obstacles:

- Entrenchment and estate sprawl. SAP is renowned for entrenching itself deep within the enterprise, creating a mix of strong customer loyalty and inescapable vendor lock-in. Many customers have been in business with SAP for 10, 15, 20 years or more. Over that time, they've bought myriad SAP products governed by different contract vehicles and terms.

- Software asset management maturity. When it comes to managing software licenses, enterprises operate at varying levels of sophistication. Some employ advanced tools and internal processes; others are sorely lacking. But even organizations that have mature SAM capabilities struggle to maintain a clear and accurate view of what licenses they own and if/how they're being used.

[1] *https://www.sapusers.org/news/832/why-have-businesses-been-slow-to-migrate-to-s4hana*

- Shortcomings of SAP's SI and consultancy partners. Large SIs and the Big 4 consultancies are great at helping customers develop an atmospheric view of a conversion roadmap (particularly for greenfield installations with clean migration from old systems to new). But they don't provide a detailed strategy for helping customers operationalize their roadmaps in a way that's optimized for timing, actual vs. projected usage, and cost. Furthermore, these organizations often have their own incentives to drive adoption of S/4HANA that may be in opposition to customers' cost objectives. There are strong incentives for SAP partners to achieve recognition for influencing or promoting new license sales.

OPERATIONALIZING THE SAP S/4HANA ROADMAP

How a company operationalizes its SAP S/4HANA conversion roadmap has significant bearing on cost. In order to keep spend in check, customers should do the following:

- Rationalize old to new license portfolio. Most SAP estates contain unused/inactive licenses that contribute to cost waste. To eliminate this toxic spend, customers need to establish an accurate and comprehensive view of what they own, determine actual usage (and usage profiles), and compare how that matches with current- and future-state requirements. From there customers can define an accurate baseline for which licenses/products need to be converted as well as any need to purchase additional licenses.
- Create an optimal licensing strategy. On the foundation of an accurate baseline, companies must evaluate and choose best-fit licensing options that meet their business and usage requirements (whether they be cloud, on-premise or hybrid). License/cost scenario modeling will uncover options that balance cost, functionality and flexibility.
- Sequence license requirements. Companies can choose to either incrementally migrate on a product-by-product basis or do a forklift migration. Most choose a phased migration – it's more feasible from a cost and resource perspective. In these cases, timing must be carefully planned. What does a realistic migration look like? Based on that, what should you be purchasing and when?
- Optimize pricing and contract terms. What SAP charges one customer can look very different for another customer with similarly scoped requirements. Customers should perform IT price benchmark analysis to determine pricing/discount targets that are at or better than fair market. Contractual terms should also be analyzed for optimization opportunities. Examples include exchange rights and credits for new products.
- Right-size support. Customers commonly overbuy support – either by purchasing higher tier support than they actually need or paying for support when they could forego support altogether. Inspection into where support is needed/unneeded across the SAP estate, and at what level, can uncover material opportunities for savings.
- Analyze compliance position. The scope and complexity of most SAP environments makes it ripe for noncompliance, particularly as it relates to indirect access (which if not licensed properly can lead to hefty punitive fees). Before companies embark on a migration – effectively giving SAP access to all licensing data – it's a good idea to validate that their current SAP estate is compliant. Proactive identification of licensing shortfalls and unintentional misuse allows the customer to remediate any issues before SAP gets its foot in the door.

Incorporation of these tactics can lead to substantial savings and cost-avoidance. Recent NPI savings examples include:

- **FOR A ~10K-USER ESTATE** negotiated a 5-year subscription at a cost equal to a 3-year subscription
- **FOR A ~14K-USER ESTATE** secured a 50 percent cost reduction in total contract value
- **FOR A ~50K-USER ESTATE** negotiated a 24 percent cost reduction and secured flexible terms to mitigate cost increases during conversion roadmap

SuccessFactors is another area of the SAP estate where customers frequently overspend. Whether part of a S/4HANA conversion project or on its own, **NPI's license optimization assessment services can identify opportunities for material savings on SuccessFactors deployments**.

AN INDEPENDENT LICENSE POSITION ASSESSMENT – YOUR FIRST STEP IN REDUCING SAP S/4HANA CONVERSION COSTS

A license position assessment is the first step in eliminating overspending risk during SAP S/4HANA conversions. It captures the full scope of the customer's SAP estate, which then feeds accurate baseline requirements into the customer's SAP S/4HANA roadmap. From there, customers can negotiate using a clear picture of their projected spend and deployment schedule. This leverage typically leads to material savings in the form of lower pricing, higher discounts and more favorable business terms. It also uncovers any compliance issues in the customer's legacy environment that can either lead to costly noncompliance fees, including indirect access, or give SAP leverage during negotiations.

NPI's SAP S/4HANA license position assessment services pick up where most large SIs and Big 4 consultancies leave off. Whereas these organizations focus on developing a big picture conversion roadmap, we focus on "last mile" operationalization. We help customers determine a licensing and timing strategy that meets current- and future-state requirements with maximum flexibility at the lowest possible cost.

ABOUT NPI

NPI is an IT procurement advisory company that helps businesses identify and eliminate overspending on IT purchases. We deliver transaction-level price benchmark analysis, license optimization advice and vendor-specific negotiation intel that enables IT buying teams to drive measurable savings. NPI analyzes billions of dollars in spend each year for clients spanning all industries that invest heavily in IT. NPI also offers software license audit, divestiture IT asset assignment and telecom carrier agreement optimization services. For more information, visit www.npifinancial.com.

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