



SAP Value: A balancing act

**Advantage through SAP optimisation,
simplification and innovation**



www.kpmg.com

Contents

03 **Introduction**

1

2

The promise 05

Inescapable IT trends realising
new business value opportunities

08 **The reality**

Safeguarding SAP investments
from the past, and the challenge
for the years ahead

3

4

The future 12

Advantage through SAP
optimisation, simplification and
innovation

23 **Closing words**

5

6

About KPMG 25

1

Introduction



Introduction

Organisations that rely heavily on SAP applications have needed to invest significantly over the past few years to keep pace with business and IT demands. Their businesses are becoming increasingly reliant on SAP, while the SAP landscape has become progressively more complex. This complexity is driven by the implementation of custom code to facilitate business requirements, introducing and connecting new modules (e.g. CRM, APO, SRM), and integration with connected non-SAP applications and other best-of-breed products.

Efficient, cost-optimised SAP implementation and maintenance is critical to managing this complexity. Organisations are moving towards the vision of running SAP as a factory, and automating their IT operations with 'IT-for-IT' (with tools such as SAP Solution Manager). They put dedicated effort into managing complexity in an environment of cost rationalisation. Organisations are therefore very active in evaluating their existing ERP systems* and related management environments in order to obtain more value and to reduce costs.

The demand for investments in SAP is further increasing due to the pace of new business opportunities brought by technological innovation, making the evaluation and timing of adopting new technology an especially important focus. Cloud solutions in the area of applications, databases and infrastructure are examples of relevant new technologies, and developments in mobility, app markets, user interfaces (such as SAP Fiori) and in-memory techniques (such as SAP HANA) play an important role too.

* When we talk about *ERP* or *SAP ERP*, we also consider related enterprise applications (e.g. Customer Relationship Management, Supplier Relationship Management), including all related technology (like infrastructure, mobile devices).

These new technologies are usually positioned alongside existing ERP systems, making it seem as if the existing, developed ERP systems cannot further evolve. "Should we start over from scratch?", might be a relevant question in this light. This radical move would make it possible to eradicate unnecessary complexity in existing systems, and enable organisations to define an ideal, efficient architecture, fulfilling future business needs and utilising technological innovations.

Starting over sounds appealing - but what about the investments done in the past?

In the years ahead the value of IT and SAP depends on the timely and effective absorption of new IT megatrends and business demands, and also effectively navigating the inherent complexity of the existing IT landscape.

KPMG conducted a background study on SAP market trends. It shows that major SAP using organisations consider the new technology trends in the SAP domain to be potential value enablers, but the main short term focus remains on optimising the run and maintain organisation. SAP using organisations face the challenge of balancing their efforts between 'keeping things running' and addressing continuously evolving business demands, including new technology opportunities.

In this publication we offer an insight into the nature of this challenge. We outline the Promise (the most important technologies and trends promising *new* business value), the Reality (*current* challenges and priorities for major SAP users) and the Future (recommendations for *balancing* between keeping things running and value enablement through innovation); **advantage through optimisation, simplification and innovation**.

2

The promise



The promise Inescapable IT trends

Today's organisations not only rely on information technology - they can't compete without it. As digital becomes even more prevalent, the demand for IT will continue to rise, which in turn will place a heavier burden on IT organisations. Driven by the further digitisation of business and increasing market competition, IT is becoming even more indispensable.

A 'digital tsunami' of new technologies is fundamentally changing the way we interact and how we do business. Cloud computing, social collaboration and data analytics are simple examples of technologies which require organisations to adopt, or at least rethink these technologies and related new economic models, structures and market approach.

Such new technologies are also impacting the traditional roles of supply and demand within IT organisations. The questions how business models are supported by IT is being replaced by the question of how to leverage and exploit the appropriate new technologies and options available.

Tomorrow's IT challenges are basically a question of supply and demand. To meet related challenges, forward-thinking companies will capture long-term growth by striking a balance between the reducing IT costs, and the enablement of its true value adding potential.

The global ERP market will change drastically in the years ahead and it is difficult to predict which new types of innovative technology will become dominant and which ones will not. The ERP suites have extended drastically over recent years either by acquisition or development. While starting off with straight-forward back-office processes (e.g. financial administration) in stand-alone or best-of-breed, applications have evolved into an increasingly comprehensive end-to-end integrated suite.

Similarly for the ERP domain, an extensive diversity of delivery options including embedded analytics, mobile functionality and greatly enhanced user experience is key to meeting business functionality requirements. >



The promise Inescapable IT trends

The **most relevant trends impacting SAP as the ERP system of choice are outlined below.** The list of megatrends that have been the subject of our SAP survey are derived from a larger list of ERP and IT related trends. Based on thorough desk research and expert panel discussion, a selection was made of the most relevant trends impacting tomorrow's ERP ecosystem.

Cloud

Faced with tightening budgets and growing competition, organisations require more flexibility than provided by traditional license-based on-premise software. Various cloud based ERP alternatives are therefore being offered which will enable cost reduction possibilities. Organisations are provided with the ability to pay for services as required. Moving towards private or managed clouds can be done without disruption due to the support of predefined migration, system conversion and deployment packages. Thanks to the Cloud offering it will be easy to provide more capacity without the need to build proprietary systems. The related economies of scale will make it very affordable, which will free IT organisations from certain (hardware related) legacy issues.

Mobility & On Device

In the near future, management, back office employees, warehouse clerks and other staff within most enterprises will use mobile devices to access enterprise data in a more flexible way than via traditional desktops. Mobile solutions offer customers better service and provide employees with secure access to important tools and data anywhere, any time, using their own mobile devices. A reflection of where the workforce is headed: more part-time, mobile and contract employees underlines the need and value of mobile ERP software solutions, which are being offered by major

ERP suppliers. Next to the enhanced services, mobile platforms provide opportunities to develop cost-effective ERP applications on top of a standardised code-base, instead of development within the code-base itself. This enables agile provisioning of function to end users and protection of the standard 'core' of the application.

Social and Consumerisation of ERP

The shift from features to experience has kicked in. ERP vendors are taking the principles that made social media a success and applying them to their systems, providing users with consumer-grade and simplified role-based user interfaces for new and renewed applications. Software solutions of the future will be user-friendly and intuitive, closely resembling consumer technologies experienced today. Additionally, organisations can focus on creating communities which will enhance collaboration, encourage innovation, anticipate market needs and connect with suppliers and customers who can join together virtually to share documents, information and solve issues.

Data Analytics & In-Memory Computing

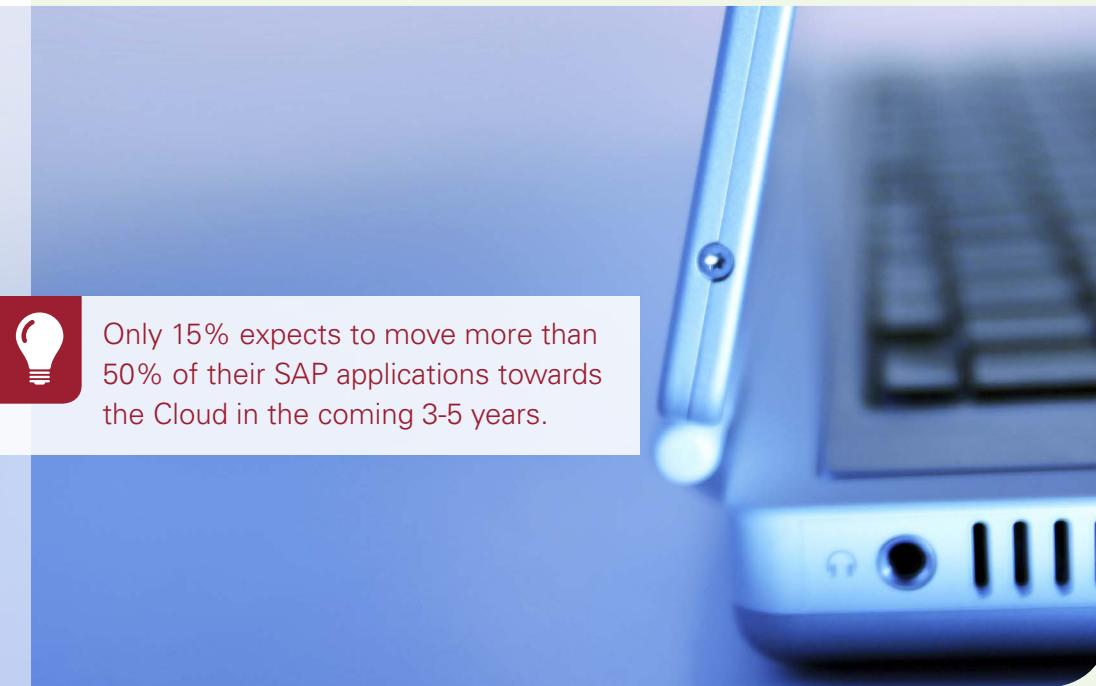
This trend is already gaining momentum, but the business intelligence movement will continue to accelerate in coming years. In new economies, data underpins nearly every aspect of business operations, from supply chains to marketing strategies to risk management. To succeed under these new dynamics, in which speed to market is critical, global companies must move towards real-time like operations. As such, the ability to analyse information rapidly to perform decision-making is essential. In-memory data analytics enables organisations to make sense of their data and turn it into a strategic advantage. ERP vendors provision and deploy their business intelligence capabilities to make use of data in a robust, intelligent and rapid manner.

3

The reality



The reality Safeguarding SAP investments

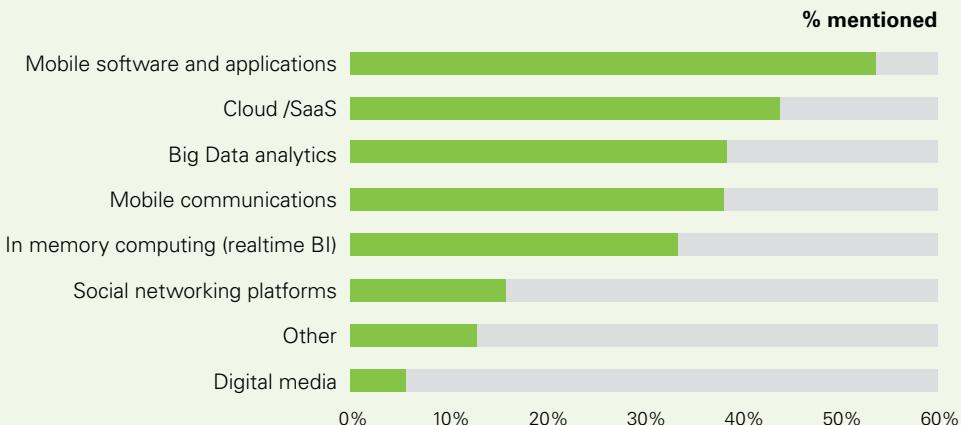


Only 15% expects to move more than 50% of their SAP applications towards the Cloud in the coming 3-5 years.

Despite the promise of the mentioned technologies, our survey findings indicate that organisations mainly focus on safeguarding investments from the past instead of innovating for the future. The ERP management agenda for the coming 3-5 years gives priority to the more traditional objectives (e.g. cost reduction (reducing TCO), optimisation of existing landscapes and improving the management of master data) instead of adopting innovative IT megatrends like social media integration, mobile functionality, big data, in-memory computing and moving SAP to the Cloud.

Low priority to IT innovation adoption and deployment

Which disruptive technologies will drive significant business transformation for your enterprise in the coming 3-5 years?

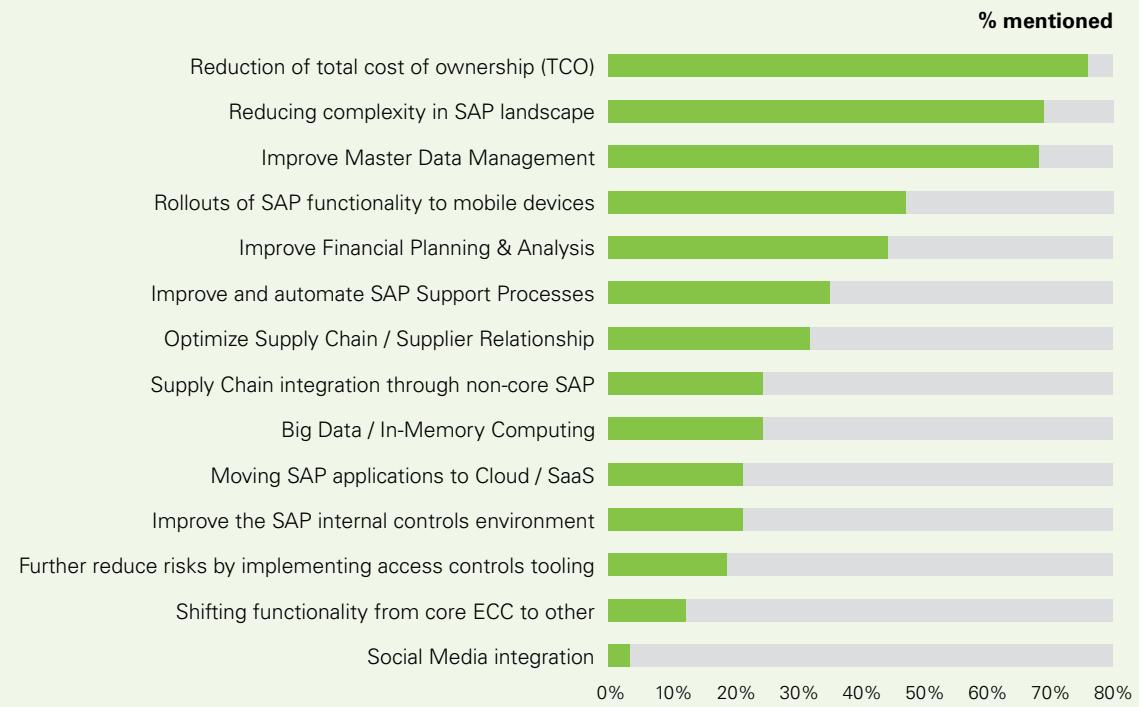


Our study also indicates that more than 50% of the ERP management organisations will not improve their innovative capabilities in the coming years to be able to introduce new (SAP or other best-of-breed) technology in a quicker and more effective manner. Almost 60% of the ERP management organisations indicated they will rely on capabilities from outside the company to ensure support of new technologies. >

The reality Safeguarding SAP investments

Focus on cost reduction and optimising existing SAP landscapes

Key priorities on the SAP agenda in the coming 3-5 years



Disruptive technologies like mobile, data analytics, cloud and to a lesser extend social integration are considered relevant when asking which of these technologies will stimulate business transformation. Nevertheless, only few of the respondents had a clear vision of which tooling will be deployed to support these disruptive technologies.

The reality The challenge for the years ahead

It seems SAP investments for the coming years are mainly driven by cost reduction and optimisation objectives and are less focused on harvesting value by embedding innovative technology, despite the more demanding business requirements.

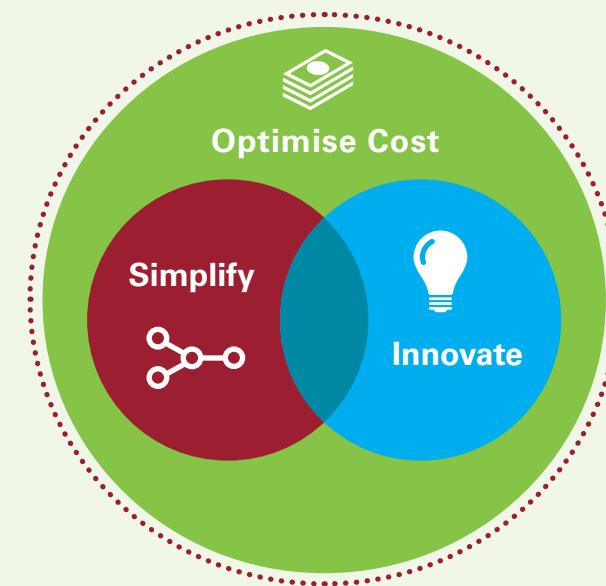
Although the business domain is changing rapidly and the market technology push creates a diversity of delivery options it will not get easier to meet the functionality needs required by the business and to realise cost reduction goals.

A possible reason for safeguarding SAP investments from the past, instead of focusing on innovation, might be the fact that it is challenging to introduce new (SAP) technology and innovation within large and complex ERP environments in parallel with running at low cost levels and having a low incident rate and stable system landscape. Moreover, large organisations might find ERP problems formidable, with so many moving parts and interdependencies that it creates a "leave it alone" mentality hindering innovation.

The challenge is to balance change, agility and innovation to realise new business value while stabilising and optimising existing IT to reduce operating cost. In the years ahead the business value of IT and SAP specifically depends on the timely and effective absorption of new IT megatrends and business demands, while also actively dealing with the inherent complexity of the existing IT landscape.

ERP software vendors have identified this challenge and started to provision solutions which combine new innovative functionality together with application simplification (i.e. SAP and its S/4 HANA strategy).

The next chapter provides our recommendations on the key themes of the future ERP agenda: ***simplification and innovation in a continuous environment of cost optimisation.***



Simplification and innovation as symbiotic drivers for the SAP management agenda.

4

The future

.....



The future Simplification

Reduce complexity to optimise cost and ability to change

Complexity within ERP environments exists in multiple forms. In general complex systems contain a high number of modules with multiple interactions and operations between them, and a large amount of diversity and variability (e.g. different types of postings within financial transactions).

Another example of complexity is custom code. Custom code is often created to accommodate business requirements not covered by the standard application. Custom code in SAP environments can be painful and result in changes taking a long time to move from initiation to implementation. Having a lot of custom code and (country specific) configurations to maintain, leads to additional pain for organisations. Recent proof of concepts at several clients also demonstrate the urgent need to "Get Back to SAP Standard" as custom code (or bad programmed ABAP code) is not (yet) performing adequate on HANA technology.

The following graphic describes the interrelation between different types of complexity within the business being reflected in SAP and vice-versa. >

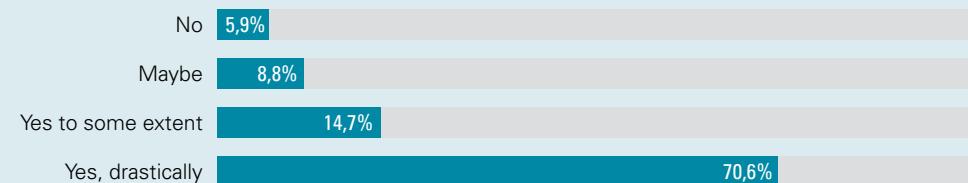


The future Simplification

SAP landscapes have become bigger and more complex over time. Our survey shows that many organisations running SAP have recognised the issue of complexity and the requirement for simplification. A strong willingness to reduce complexity exists.

Almost all respondents see the need to reduce the complexity within their SAP landscape. Only 6% of companies surveyed indicated they have no intention to reduce complexity. >

Willingness to reduce complexity



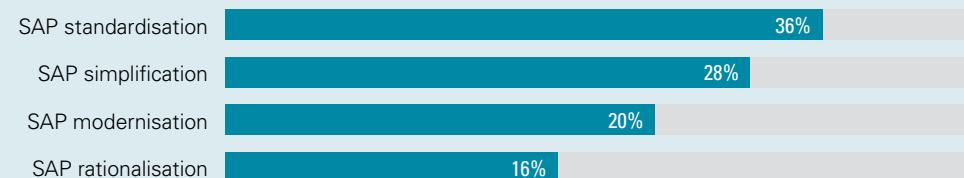
75% consider(ed) or have executed a SAP re-implementation!

Approximately 66% indicated not to move to a more best-of-breed oriented strategy for enterprise applications and rather stick to their SAP unless policy.



The future Simplification

Standardisation and Simplification are enablers to reduce complexity



SAP standardisation	SAP simplification	SAP modernisation	SAP rationalisation/ harmonisation
Using common applications/ functionality to standardise business processes and performance measures.	Meeting business expectations by being contextual to their requirements and devoid of superfluous features which make applications harder to use.	Transitioning SAP landscape to more versions, architectures and platform environments.	Combining, consolidating, migrating, and retiring redundant applications to improve the business value delivered by the application portfolio.

Simplification and standardisation are considered the most important enablers for the reduction of complexity. Consolidation and modernisation appear to be a lower priority.

Organisations that are able to adequately manage complexity in their SAP environment can gain a significant and sustainable advantage and improve their ability to change and innovate.

Consider the following:

- 1 Start by determining a structured approach for complexity management.
- 2 Implement a governance process to ensure complexity reduction is executed in a combined effort between IT and business.
- 3 Perform a thorough analysis of business and SAP complexity based on fact-based usage.
- 4 Initiate a complexity program which embeds a continuous improvement processes with the objective to remove and prevent needless complexity.
- 5 Make complexity reduction a standard requirement in all IT projects and changes.

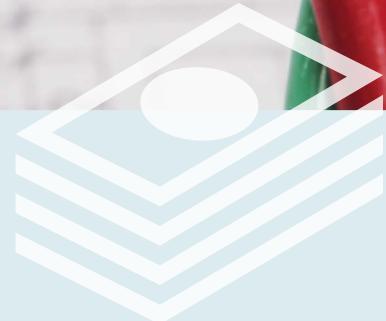
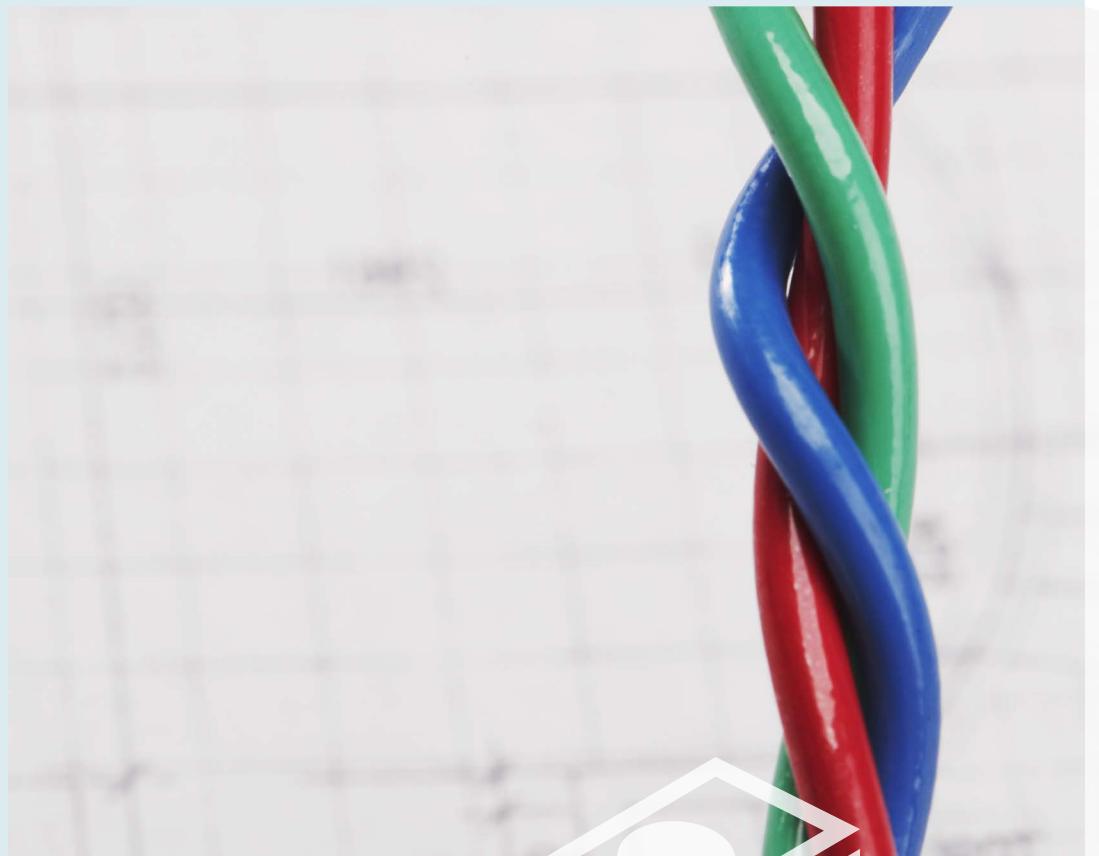
The future Cost optimisation

Drive down SAP costs and create room for renewal and innovation

Organisations are under pressure to implement cost reduction initiatives. Such cost reduction initiatives often focus on IT while business units are constantly putting pressure on CIO's to reduce the impact of the IT budget on companies. CIO's have to do more with less. Cost reduction for SAP starts with an in-depth examination of all SAP spend, followed by a prioritisation of possible cost reduction opportunities. Reducing headcount, re-negotiating contracts, reducing service level agreements, limiting licence numbers, and rationalising hardware and software are typical examples that can support reductions in IT and SAP spend.

Currently a huge chunk of IT spend flows into run and maintain activities. Currently 60% of SAP using organisations spend more than 80% of their ERP budget to optimise and maintain their SAP landscape, leaving little room and attention for simplification and innovation.

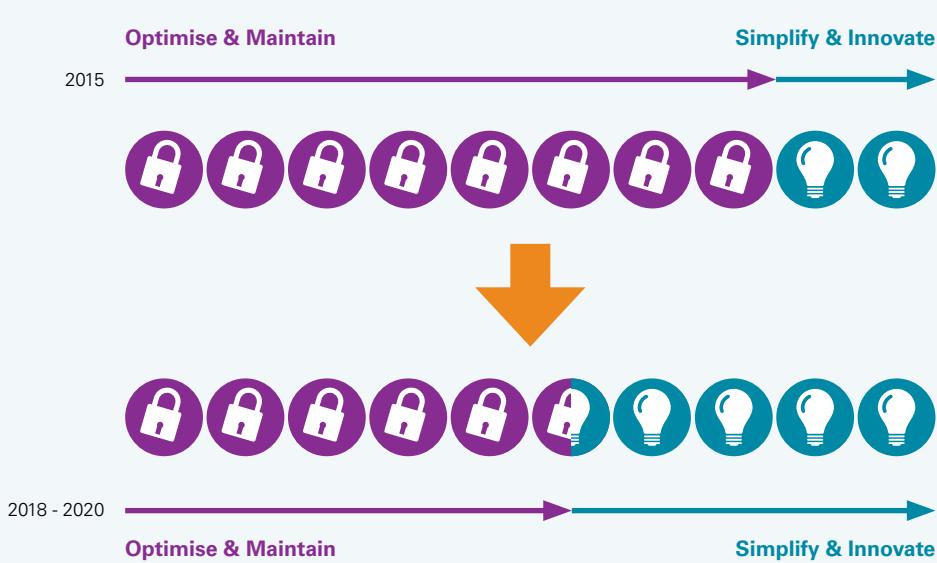
As CIOs have most likely realised their "quick wins" already, SAP cost reduction is becoming more challenging. Potential new cost reductions are emerging with the introduction of new innovative technologies (like Cloud and In-memory solutions) that offer cost optimisation opportunities. Shifting the focus from immediate short-term wins to more coordinated long-term efforts will further enable organisations to reduce costs while increasing benefits. >



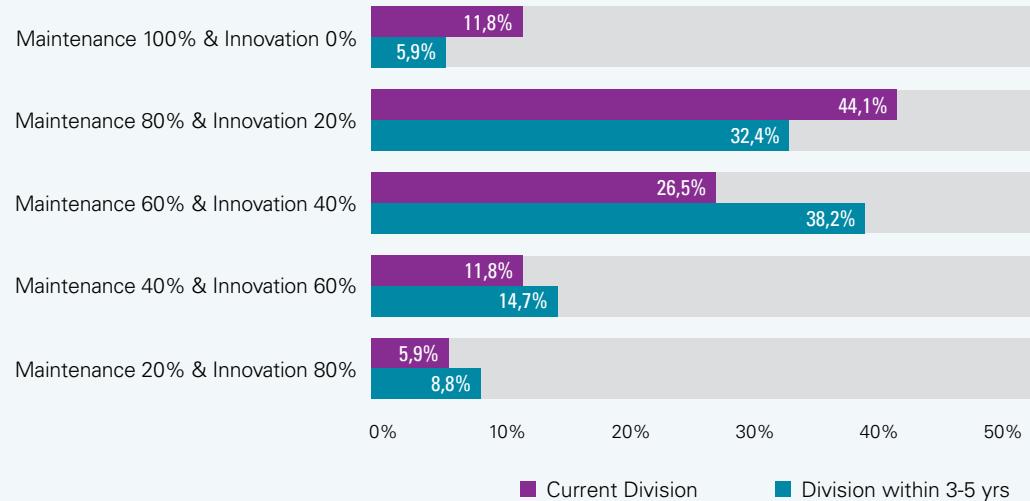
The future Cost optimisation

90% of organisations surveyed indicate that their total SAP spend will not increase or decrease significantly in the coming years.

SAP running organisations indicate that the balance between 'Optimise & Maintain' and 'Renew & Innovate' will shift in the coming future. But despite this fact, survey results indicated that approximately 75% of all organisations will still spend more than 60% on "Optimise & Maintain" efforts in the coming 3-5 years. >



Division of IT spend between maintenance and innovation



The future Cost optimisation

Consider the following:

- 1** Benchmark run and maintain activities, organisation, and other artefacts (e.g. amount of incidents per active user) against industry best practices to identify potential improvement areas.
- 2** Determine the primary cost drivers in your SAP run and maintain operations and implement matching KPIs to measure and monitor cost performance.
- 3** Review contracts with software vendors and IT service providers. Evaluate SLAs and cost drivers to determine whether these are still aligned to your cost performance objectives.
- 4** Optimise your assets, decommission idle/excess systems, infrastructure components, licenses, and storage.
- 5** Improve SAP run and maintain processes, and supporting tooling (e.g. change, release and transport management, incident management, data volume management).
- 6** Reduce SAP complexity, resulting in less incidents, break-fixes, and effort required to change and upgrade your systems.
- 7** Ensure any SAP related investments (changes, projects) consider run and maintain cost performance as non-functional requirements in the business case design, build and deployment of the solution.



Organisations will primarily use the Technical System Monitoring (44% of respondents) and Change & Release Management (54% of respondents) functionality from SAP Solution Manager to automate core SAP run and maintain processes.

The future Innovation

Embrace innovation

IT related innovations have the most impact and business value when those innovations are able to drive business (process) transformations, unlocking value in the business which was not previously reachable.

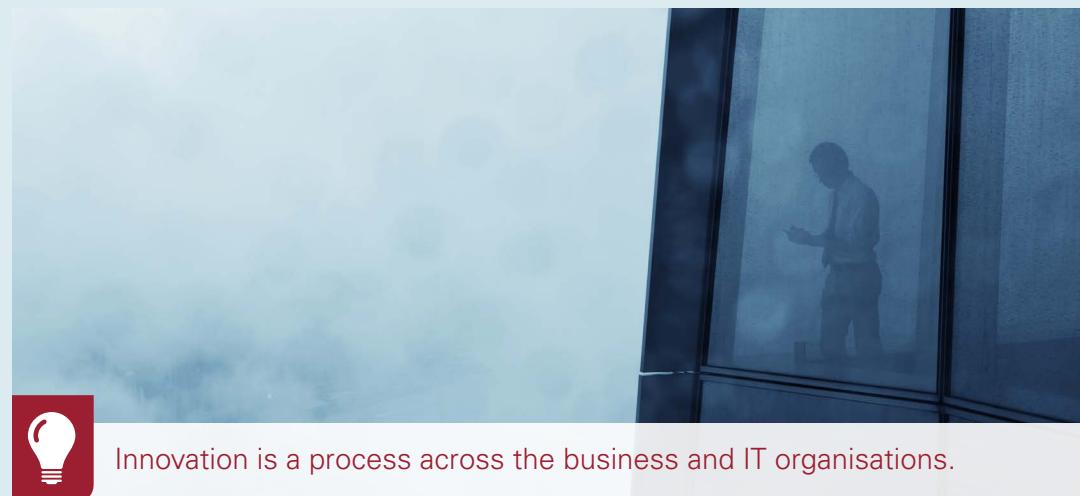
Our survey indicated that for 60% of organisations, IT departments currently drive innovation. This technology push by IT, instead of a business pull results in the risk that technology innovation roadmaps might not match the awareness, needs and readiness of the intended users of the technology. Successful innovation requires structures which ensure close collaboration and understanding between IT and the business.

Clear technology innovation roadmaps are a co-creation between business and IT. They fit in the long-term technology strategy of the organisation and also show immediate value, with support of the business acting as innovation driver. Implementing IT innovations without incorporating an appropriate level of business process expertise will always result in failure.

Our survey shows that improving capabilities to innovation adoption does not receive high priority on the management agenda in the coming years. More than 50% of all organisations indicated that they will not improve their own ability to adopt innovations in SAP technology in a faster manner. Additionally, organisations will rely strongly on external resources instead of building up their own knowledge and capabilities.

The available means to innovate must primarily focus on differentiating business processes (highest value principle) and less on commodity business processes (lowest cost principle).

While perhaps experiencing a 'leave it alone for now' mentality, organisations should explicitly plan for innovation. Incorporating the maturity of the innovation, organisational readiness and the opportunities for the innovation to create new business value. >



Innovation is a process across the business and IT organisations.

The future Innovation

Consider the following:

- 1** Create an environment of technology pull: Implement an approach that is co-developed with business leaders and IT. Enforce co-creation.
- 2** Implement guiding principles and ways of working with bi-modal IT, securing the business as usual while enabling exploratory development.
- 3** Plan for innovation in the ERP strategy. Re-tune this regularly to the maturity of technology developments and organisational readiness.
- 4** Onboard carefully but do not miss the boat: build new skills and capabilities and use proof of concepts to evaluate innovative technology.



For 60% of organisations currently SAP innovation is still strongly driven by IT instead of business (technology push).

The future The SAP S/4 HANA transition

With HANA driving an increasing number of new SAP developments, we believe successful adoption of these developments builds upon the principle that simplification should be tightly integrated into the plans of adopting new HANA based technologies.

With the announcement of S/4 HANA, SAP reconfirms the move of core business applications (logistics, finance and controlling) to the HANA platform. More importantly however this also marks the transition from a monolithic on premise ERP system to an federated ERP environment consisting of tightly integrated SaaS service components.

We believe this transition is significant and a decision and roadmap to implement should be part of a broader strategic ERP vision and strategy. We believe the following 6 steps should be incorporated into any plan to get the most out of this transition:

1 Determine a phased approach to adopting HANA and cloud based technologies by evaluating the SAP roadmap against business priorities and needs. Timing is crucial: too early means you pay the price of being an early adopter; too late means you'll continue to invest in legacy technology for too long and are missing out on competitiveness and business benefits.

2 Consider how a cloud based federated IT environment best fits your organisational culture and governance models. Operating such an environment has benefits for both centralised and decentralised organisations.

3 Evaluate your ERP vendor and integration strategy. The transition to the federated model with more loosely coupled SaaS services provides the ability to more easily combine solutions from different vendors than it was before.

4 Establish an overall program that articulates long term objectives including an overall business case with benefits defined. Consciously consider how the SaaS based ERP environment will affect your IT operating model. The program should consist of several business driven projects that provide a gradual transition to this new ERP paradigm.

5 Define and initiate IT projects as mentioned under 4) based on the outcome of proof of concepts and pilots. Within each of these proof of concepts/pilots, new technology can be evaluated against specific use cases and individual business cases should justify further rollout of the technology.

6 Ensure that you consistently apply the principles of simplification during this program by standardising processes and moving unavoidable customisations to Platform as a Service (PaaS) layers. Avoid ending up with an highly customised SaaS landscape to be able to realise the simplification and business agility promise. >

The future The SAP S/4 HANA transition

6 key steps to ensure a successful S/4 transition

- 1 Phased approach to adopting HANA and cloud based technology
- 2 Consider fit with governance model and organisation
- 3 Evaluate ERP vendor and integration strategy
- 4 Establish overall program
- 5 Leverage proof of concepts to test business value
- 6 Consistently apply principles of simplification



5

Closing words



Closing words

Technology trends like mobile, in-memory data and analytics, cloud computing and the consumerisation of IT have the promise to be disruptive, and through business innovation, resulting in bottom line and top line improvements.

In reality, our study shows that SAP using organisations recognise the value potential but a short term focus exists on improving quality, reducing complexity and lowering total cost of ownership of the existing landscape, before embarking on new technology journeys. Keeping things running consumes the majority of resources and leaves little room for renewal and innovation.

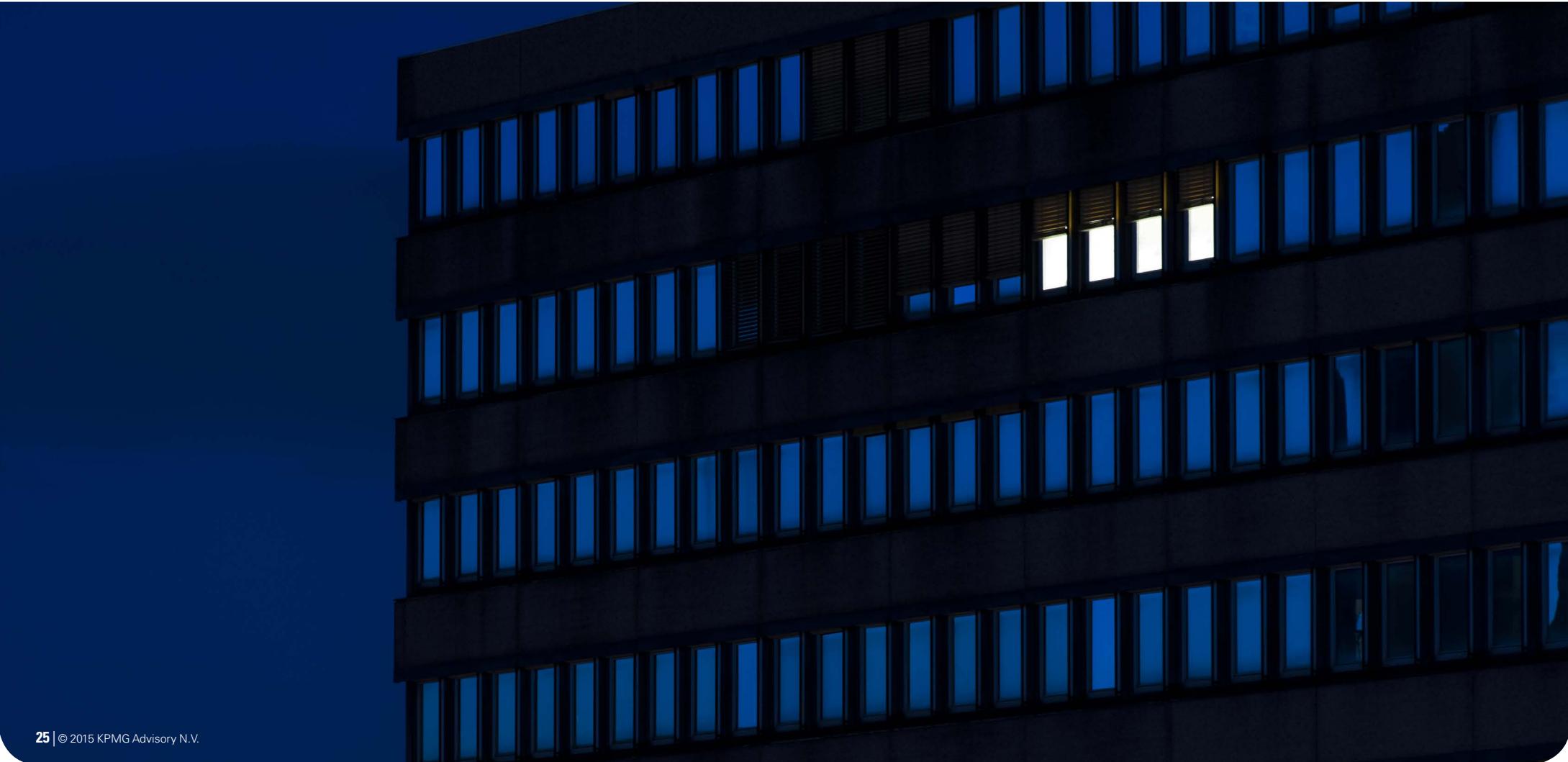
We have outlined the IT megatrends within the ERP domain, given insight on the challenges faced by SAP using organisations and provided recommendations to consider for the future SAP management agenda.

The challenge will be to combine simplification and innovation efforts in an environment of cost optimisation. Getting these key components in balance is key to increase the value from SAP systems.

We would like to thank all the companies who contributed to this effort by their participation in the SAP Survey 2014-2015.



6 About KPMG



About KPMG

Thought leadership

KPMG issues a range of surveys in the area of IT Transformation and SAP specific matters. KPMG is also pro-actively organising round tables and other events to collaborate with clients and to promote innovation. We contribute thought leadership articles regularly to leading publications.



The CIOs Agenda



HARVEY NASH CIO SURVEY 2015
In association with KPMG



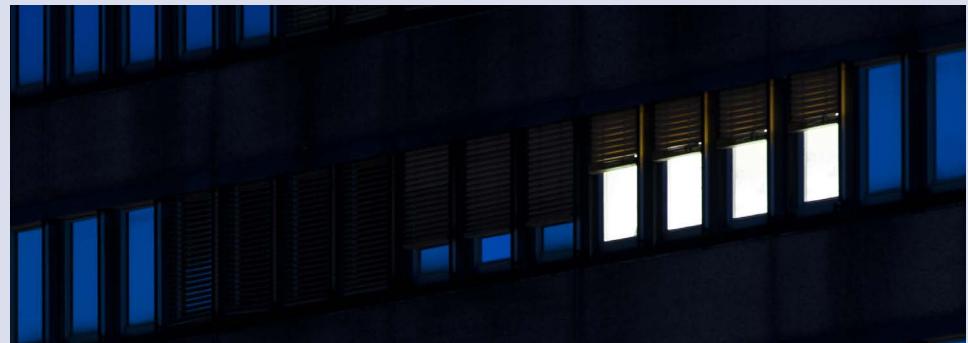
The Digital Revolution



KPMG's IT and ERP magazine



KPMG's IT and ERP magazine



About KPMG

KPMG provides audit, tax and advisory services. We work for a wide range of clients: major domestic and international companies, medium-sized companies, non-profit organisations and government institutions.

About KPMG IT Advisory

KPMG is one of the largest global providers of professional services and has a dedicated team of SAP management and risk consultants within its IT Advisory practice. KPMG Enterprise Solutions, as part of IT Advisory, contributes in building a bridge between client challenges and measurable results. KPMG Enterprise Solutions is independent with multi-disciplinary SAP expertise teams (Finance, Supply Chain, Master Data Management, Strategy) and off shoring capabilities.

KPMG's Enterprise Solutions acts as the linking pin between business and IT supporting with SAP implementations, optimisations and strategic challenges to create of business value from SAP investments. We have build this capability through our excellent stakeholder management, integrated transformation methodologies and frameworks, hands on implementation capability and project management and reporting skills.



Contacts

Austria

Juergen Steinecker**T:** +43 131332 843**E:** jsteinecker@kpmg.at

Belgium

Reinaart Claesen**T:** +32 38211774**E:** rclaesen@kpmg.com

Belgium

Anthony van de Ven**T:** +32 38211859**E:** avandeven@kpmg.com

Canada

Norbert Huber**T:** +1 604 691 3574**E:** norberthuber@kpmg.ca

Denmark

Lars Lindberg**T:** +45 52150111**E:** larslindberg@kpmg.com

Denmark

Danny Golan**T:** +45 52150282**E:** dgolan@kpmg.com

France

Cedric de Lavalette**T:** +33 155686712**E:** cdelavalette@kpmg.fr

France

Nicolas Leleu**T:** +33 155686568**E:** nleleu@kpmg.fr

Germany

Marco Lehmann**T:** +49 3020684886**E:** mlehmann@kpmg.com

India

Mandar Joshi**T:** +91 2239802418**E:** mjoshi@kpmg.com

Italy

Paolo Coacci**T:** +39 0514392611**E:** pcoacci@kpmg.it

Italy

Fabrizio Ricci**T:** +39 02676431**E:** fabrizioricci@kpmg.it

Netherlands

Gerben de Roest**T:** +31 206568707**E:** deroest.gerben@kpmg.nl

Netherlands

Keesjan van Unen**T:** +31 206567424**E:** vanunen.keesjan@kpmg.nl

Poland

Andrzej Tajchert**T:** +48 225281100**E:** atajchert@kpmg.pl

Russia

Alexandra Ivanova**T:** +7 4959374444**E:** alexandraivanova@kpmg.ru

Spain

Francisco Javier Martin Barroso**T:** +34 914568215**E:** jmartinbarroso@kpmg.es

Sweden

Magnus Sjostrom**T:** +46 87239556**E:** magnus.sjostrom@kpmg.se

Sweden

Andreas Pousette**T:** +46 87239481**E:** andreas.pousette@kpmg.se

Switzerland

René Koets**T:** +41 582494269**E:** rkoets2@kpmg.com

Switzerland

Johan Steenstra**T:** +41 582495729**E:** johannessteenstra@kpmg.com

United Kingdom

Sean Baber**T:** +44 2076945782**E:** sean.baber@kpmg.co.uk

United Kingdom

Tarek El-Semman**T:** +44 2073114662**E:** tarek.el-semman@kpmg.co.uk

United States

Carlos Mendes**T:** +1 9175446697**E:** cmmendes@kpmg.com

United States

Richard (Rick) Cimino**T:** +1 6107660724**E:** rjimino@kpmg.com