

Migrating to S/4HANA: It's Not Simple As You Think

Introduction

SAP customers are faced with many questions regarding S/4HANA. SAP describes S/4HANA as its “next generation business suite,” an important upgrade for its customers, and the successor to its existing Business Suite deployments. SAP has taken some functional domains (e.g., Financials, Human Resources, etc.) in its ERP 6 application (technical designator ECC 6.0) and marketed them as greatly improved due to their “refactoring” to run on the proprietary HANA in-memory database. According to SAP, the main benefit is faster processing time and a reduced data footprint. This includes, for example, some materials requirement planning processes and the entire set of tasks for sales and finance end-of-period-close business processes. While SAP emphasizes key improvements in S/4HANA capabilities, it downplays the cost and effort required for the typical SAP ERP user to migrate to S/4HANA. At the recent SapphireNow SAP user conference, SAP tried to characterize the migration roadmap as “simple,” with demonstrations of tools designed to help in the process. Others disagree. In a June 2016 report by Nucleus Research, SAP customers surveyed expressed reluctance to adopt SAP’s latest applications, citing concerns about the “disruption and risk posed by moving from existing legacy applications.” Our conclusion is that SAP customers may, for reasons we discuss, not wish to migrate to S/4HANA for quite some time.

SAP documentation provides little insight about cost, but SAP does list requirements for migrating to S/4HANA that detail the hardware and software customers need for the complex data and functionality migrations, as well as the specialized expertise they will need to install, migrate data and configure their systems. The migration requirements also raise concerns about existing user customizations, add-ons and integrations that are

not supported by S/4HANA — meaning that enterprises may have to write off critical customizations they have made to their SAP environments.

Is There a Business Case?

Early on, SAP described S/4HANA as a monumental event for the company that promised faster query times and a reduced data footprint. However, SAP has continued to struggle with articulating a compelling functional business case for S/4HANA that resonates with its SAP ERP customer base. The Nucleus Research report indicated that nine out of 10 customers indicated they would not make future investments in S/4HANA. A recent survey by the German-speaking SAP User Group (DSAG) reported similar results: 86 percent of its members plan to make little or no investment in S/4HANA. We see similar sentiments from the Americas SAP User Group (ASUG). In its second-annual member survey, nearly 60 percent of respondents said they’re not seeing a compelling business case to justify the investment.

According to Gartner, the reason customers are hesitating to adopt SAP HANA is that the business case poses a major challenge. Organizations have made very large investments in ERP implementations and DBMS licenses. A very compelling scenario will be required to switch to HANA. The data migration process from legacy implementations requires considerable effort and specialized resources to load and configure HANA.

Risky, Expensive, and Disruptive

Nucleus Research reports that one of the greatest customer concerns about migrating to S/4HANA is the potential disruption and risk posed by moving from existing SAP ERP and other Business Suite applications. Many SAP customers remember long and difficult projects required to stabilize their ERP implementations, and they are not interested in revisiting similar challenges. Possible business disruptions need to be evaluated against ROI calculations, of course, but S/4HANA migrations are complicated because moving to S/4HANA means abandoning

third-party databases for a completely new proprietary database, SAP HANA. This is a significant risk in that IT staff that has developed skills and competencies in the previous database must be retrained on HANA. HANA licensing characteristically lacks transparency, but multiple sources indicate it is based on the value of the existing application it will be supporting, plus classes of named users. HANA licenses are reportedly expensive when compared to conventional RDBMs from Oracle, IBM or Microsoft. Lastly, the HANA database requires costly SAP-certified hardware for optimum performance, with explicit specifications for memory, number of processors and processor speeds.

It doesn't end there. A migration to S/4HANA requires additional technology expenditures — both hardware and software — and almost always requires specialized consultants whose skills are not widely available in the market. Because few existing customers have migrated their ERP instances to S/4HANA, there are no clear estimates of the costs, risks and level of effort involved in migrating. SAP is not transparent about these factors; however its documentation is clear about what's required to migrate ERP to S/4HANA.

ECC 6.0 users migrating to S/4HANA first need to implement Enhancement Pack 7 and upgrade to the latest version of the NetWeaver ABAP Application Server 7.5, which supports S/4HANA business processes and Fiori user interface configurations. The S/4HANA Enterprise Management 1610 update (on-premises version), has SaaS-based "extensions" (i.e., SuccessFactors for HR, Ariba for Source-to-Pay, Fieldglass for contingent labor management, and Concur for travel and expense). If you plan to use these applications, you will require cloud-to-on-premises or cloud-to-cloud integrations. SAP's documentation advises customers to license the SAP HANA Cloud Platform (a platform-as-a-service solution) to build integrations between the on-premises functional domains and the cloud extensions. The HANA Cloud Platform requires a separate subscription license, which is another added cost factor.

Finally, more than 90 percent of existing SAP ERP implementations have been customized for specific user requirements. User modifications include everything from transaction screen modifications, reconfigured business processes and integrations with other applications. There are many unanswered questions about S/4HANA's ability to accommodate user customizations. Every user customization will have to be evaluated for compatibility with S/4HANA. Nonsupported customizations will either have to be discarded or rewritten at a high cost and risk.

Attesting to the potential risks of migrating, Gartner recommends certain risk mitigation strategies that include engaging SAP's MaxAttention Premium Support Services during migration. MaxAttention support complements other SAP support offerings and involves on-site SAP technical expertise with the expectation that the engagement will be complex and span long time periods. This is another high cost factor that must be considered.

Conclusion

SAP describes S/4HANA as the "biggest launch in 23 years, if not the entire history of the company." Time will tell whether S/4HANA lives up to its promise, and potential customers should approach S/4HANA with caution. The product is still too new and its success is far from assured. Further, the product's roadmap is still unclear regarding which enhancements will be delivered when and if they will deliver business benefits of enough value for users to justify the cost and effort involved in migrating. It may take a decade to reach functional parity with ECC and the other Business Suite products. Until there are enough live and referenceable S/4HANA customers, it will be difficult for existing SAP users to evaluate their options and formulate their plans. In the meantime, the SAP applications that so many companies depend on will continue to effectively run critical business processes for years to come. While customers are evaluating their options, they should consider whether the cost of SAP maintenance is providing an adequate return on their investment. They should also consider how they're going to fund strategic IT investments that help drive revenue, enhance customer loyalty and reduce costs.

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