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SAP All-in-One – Future Proof ERP for Midsized Enterprises?

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Why You Need to Read This

This paper is intended to supply CEOs and CIOs with the information needed to critically assess their future investments in SAP All in One.

In this paper, we analyze the main architecture of All-in-One, the consequences for key features such as scalability and adaptability for users and partners, the future of the product, and the background that future developments will occur against. This background is formed mainly by SAP having to redo its whole product set in the next five years. SAP needs to reinvent its business and address its two most critical issues: *1) free customers from their current cost and complexity and 2) deliver a new architecture to carry them into the future.*

SAP has been successful with its high end enterprise application software. However, SAP has been trying to replicate this success in the lower end ERP market for more than 10 years with mixed achievement. The first attempts all focused on solving this task by repackaging the R/3 suite of products. Various names for different attempts spring to mind: Heidelberg (a project name for R/3 on a laptop), Ready to Run, Ready to Work, and, lately Kayak (a project name) spring to mind. Of all these, only All-in-One made it to the market.

All-in-One is particularly attractive for enterprises that want to have access to the rich functionality of mySAP (previously R/3) without having to go through the pains of implementing and running a vastly complex ERP-product like mySAP ERP. Here, we discuss the following issues:

- How effective is All-in-One in reducing complexity and cost of operation? Is it really "All-in-One"?
- What are the issues of customers outgrowing All-in-One?
- Is All-in-One well aligned with SAP's product cycle? Is it "future-proof"?
- What is the role of SAP's All-in-One partners?

SAP is restructuring its product set around a new service oriented architecture based on NetWeaver. This has started to affect All-in-One. While the Enterprise Service Architecture opens new possibilities, it also makes the product potentially more complex. We will also discuss the consequences for All-in-One users and partners.

Expectations

When the leading vendor of enterprise applications offers a mid-market application package, customers and partners expect leading quality.

Architecture

Customers expect an architecture that is good enough for at least a decade, allowing them to amortize their investments and to embrace and leverage upcoming technologies and trends.

User friendliness

SMB users cannot invest heavily into end user training. The classic SAP product line always was subject to criticism in this area. Users expect that it will be significantly easier to work with an entry level product.

Functionality

With the R/3 and mySAP products, SAP more often than not leads the competition in functionality by a significant margin. Customers and partners expect to have a similar situation –with All-in-One.

Integration

Customers and partners expect better than average integration with SAP's other products and popular third party products as well as legacy and custom programs.

Longevity and investment protection

From a vendor like SAP, customers and partners expect a predictable product cycle, transparent roadmaps and standard maintenance for at least five years. Costly and forced migrations to an incompatible next generation product must be excluded for the next 10 years

Quality

Over decades, SAP has built an image of a quality software vendor by providing the corporate world with dependable products. Here, in the context of All-in-One, we focus on the quality impacts of the partner channel as it is usually sold and deployed by SAP partners.

Upgrade path

SAP customers expect to be able to upgrade easily within SAP's product portfolio.

In this research, we will analyze to what extent All-in-One delivers on these customer expectations.

SAP All-in-One Architecture: A Delivery Architecture

SAP offers two SME-products under the common moniker of Smart Business Solutions: Business One and All-in-One. A third SME related product, currently only known under its project name A1S, is imminent. Whereas Business One is a true stand alone product in the sense that it has its own code base and a distinct fat-client architecture, All-in-One does not have a software architecture of its own. Instead, it shares the architecture with the mySAP ERP base it uses, which in turn is inherited from R/3. However, delivery for All-in-One differs and hence we may

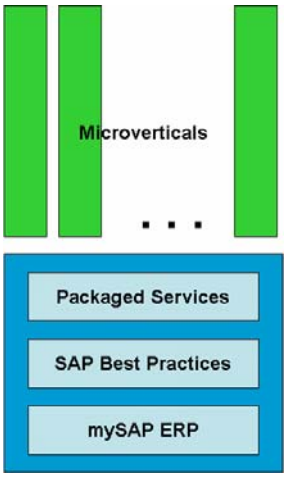

Figure 1 All-in-One is a delivery architecture (Source: SPI)

call the All-in-One architecture a "**delivery architecture**" . A1S on the other hand has a fully NetWeaver based architecture, is incompatible with both members of the Smart Business Solutions group and will be offered initially only ias a hosted service.

The delivery concept SAP uses for All in One is based on the mySAP ERP core product, SAP Best Practices, and a number of packaged services on the product side. All-in One is sold indirectly through a network of annually certified partners. These partners are supplied through special logistic centers, (SME centers) and they use a pricing scheme that differs from mySAP ERP as it is sold by SAP directly to larger accounts.

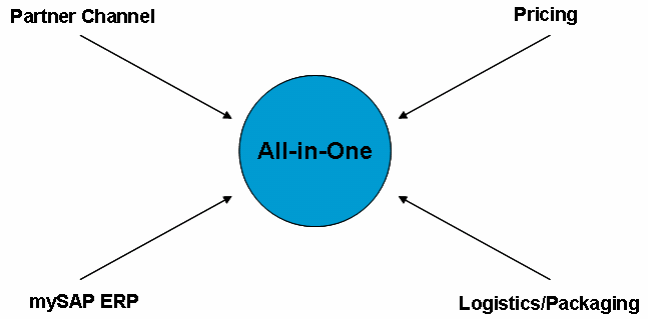

Figure 2 Ingredients of All-in-One (Sourve: SPI)

When All-in-One first appeared based on R/3 in 2003[1], SAP took great pains not to touch the product core thus making sure that maintenance and support could be shared with R/3 and future upgradeability to R/3 was not prevented or obstructed. When SAP started its initiative to use mySAP ERP as a core for All-in-One, this very concept was preserved.

Sharing the technical foundation with mySAP and only adapting the packaging and the ecosystem to the midmarket yields a product that creates little extra burden for the vendor but contains basically the same complexity and cost of ownership characteristics as the mySAP ERP core. On the other hand, All-in-One can unleash the strong and mature functionality of mySAP ERP at any time. Once this is done, the customer has mySAP ERP and cannot rely on any of the preconfigurations that he started with.

Rather than optimizing the product from ground up for the mid-market, SAP chose a different route. SAP has introduced a number (at the time of this writing: three) so-called SME Solution Centers.

The role of these centers is to leverage the qualities of an industrial, world-wide organization like SAP when supporting the All-in-One partners. SAP supplies an industrial foundation, monitors the partners and they in turn provide microverticals and customer proximity.

All-in-One is not all SAP functions in one system. Sharing the core (mySAP ERP, in previous versions R/3) with the established SAP core product, it is subject to the same configuration restrictions.

[1] Before 2003, SAP offered a similar R/3 package under the name „Ready –to-Run"

Up until mySAP ERP 2005, many of the mySAP ERP key components need separate, dedicated servers. They could not share databases. Among those were the Enterprise Portal, the Business Warehouse, CRM, SCM, and SRM. With mySAP ERP 2005, it is now possible to share instances allowing for far more flexible configurations. Since the performance characteristics of the different components are not the same, sizing and configuration are far more delicate tasks. There is very little experience out in the field on this topic and we believe that initially the more complex and costly multi instance configurations will be favored to avoid performance issues. SAP deliberately talks about a "suite in a box" in this context alluding to the possibility that multiple blade servers can be configured in the same cabinet.

Furthermore, there are other SAP applications such as maySAP CRM that All-in-One customers may be interested in that are not part of All-in-One. They were part of the mySAP Business Suite that SAP stopped to sell to new accounts in 2006. Instead, SAP now offers 170 SAP Solutions to larger accounts. They are preconfigured for SAP's target industries and they have, in addition to the standard named user based pricing additional industry metric based price points. As of this writing, SAP has not communicated any plans on how these applications will surface in the SME market.

User Friendliness

Over time, SAP has improved the user interface of its products in many ways. Originally, R/3 (the origin of All-in-One) was written to comply with IBM's SAA and the then current CUA user interface specification. However, before general release of the product over 20 years ago, SAP recognized that this was totally inadequate and reworked the look-and-feel of the product.

Architecturally, the user interface is well separated from the application code thus giving considerable freedom to the designer. However, SAP has created its own language for screen-related logic (Dynpro). As considerable investments by SAP, partners, and users have been made into Dynpro-code[2], SAP has to support this environment and cannot rid itself easily from it. To align Dynpros better with the

[2] The Dynpro concept was originally introduced to reduce communication traffic by installing code on the client. It is a proprietary legacy concept.

requirements of the Internet, SAP has created the WebDynpro-environment. Oriented towards the specific compatibility requirements of this legacy, SAP cannot support some of the more advanced portal standards such as WS-168 with this.

SAP's competitors like Siebel (now Oracle) and Microsoft have shown repeatedly that more attractive user interfaces can be produced. In one of the more recent independent evaluations, the University of Innsbruck compared a little known, but quite modern ERP system with SAP R/3 and the graphical user interface (GUI) 6.40 that is still used in mySAP ERP 2004 and All-in-One. It will be gradually replaced by SAPGUI 7.10[3]that is intended to support Microsoft Vista. The results are valid for All-in-One for those functions that form the ERP core. Extensions supplied by partners (mainly microverticals)cannot be analyzed easily as they are very diverse in functionality and quality.

The results of this evaluation[4] show that SAP has room for improvement in the user interface design. Users find that SAP R/3 (mySAP ERP, All-in-One) is not very intuitive and that a great amount of preparation is required before users can successfully master the complexity. SAP scored in areas like speed where the maturity of the product is a key element.

The Semiramis user interface was designed using modern design principles and it was implemented in compliance with DIN-EN-ISO 9241-10 standards.. Most importantly, it benefited strongly from a small and experienced team – enforcing consistency is easier in an environment that is small and organizationally well focused.

[3] Avalilable since February 2007

[4] Working Paper 27/2006: Usability Testing von ERP-Systemen, Hans Hinterhuber, Kurt Promberger, Felix Piazolo

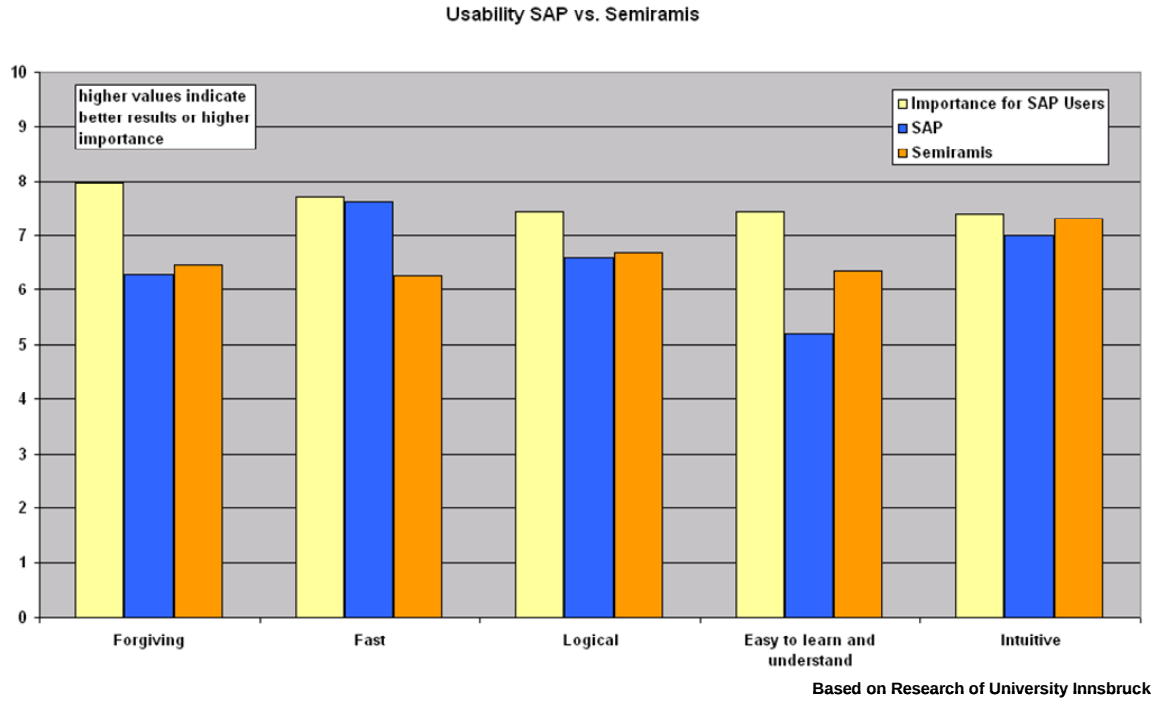

Figure 3 Usability is not the strength of All-in-One[5] (Source: SPI/University of Innsbruck)

While Semiramis certainly is an interesting contribution from an academic point of view, the real challenge for SAP may come from a different angle. Of all the larger and noteworthy competitors SAP faces globally, Microsoft has the strongest user interface experience and presence due to its ubiquitous office products. Leveraging this expertise, Microsoft has started to implement its office user interface and style guide across its portfolio of Dynamics application products. The message is simple and powerful: give the user a familiar and proven user experience that reduces the complexity for simple tasks and, at the same time, allows growing into power usage without losing the intuitive appeal masking complexity and enabling functionality according to a role oriented paradigm at the same time. For SAP, this should be a hard to beat proposition. It may very well become the yardstick. It remains to be seen if SAP's new All-in-One version announced on January 16, 2007 will really offer a dramatically improved user experience.

[5] The original data of the research was in the form of interview results. The author pooled key results and combined them with the friendly help and endorsement of the Univerity of Innsbruck project manager, Felix Piazolo to whom I am greatly endebted.

Functionality

The same analysis also indicates that SAP has little to fear when it comes to functionality and maturity of core functions. This is no surprise: thousands of customers have guided SAP with their requirements over more than 10 years. The software performs when hardware is correctly configured and there is plenty of expertise around to do this right.

While All-in-One is functionally very rich in its ERP-core functionality (extensions such as CRM and supply chain management have been implemented in separate products), it is architecturally very proliferated. The many years of enhancements by different teams have left their marks causing the product to have many redundant functions that result in high complexity.

All-in-One performs well when hardware is correctly sized and the software is properly tuned[6]. This requires expertise, but in general this expertise is available, albeit at a comparatively high price and there is sufficien and relatively well documented experience to assure positive results. In addition, SAP's Best Practices add to the relatively high rate of All-in-One implementation.

The functionality of mySAP ERP 2005 has grown over many years. Some parts are even visibly rooted in SAP's successful mainframe product R/2 maintenance for which was terminated in 2004. While this long tradition (at times spanning generations of software specialists) is one of the sources of functional richness, it is also the root of architectural burn out. In systems that are as big as SAP's mySAP ERP, there is frequently duplication of functions causing undue complexity. MySAP ERP, the software base of All-in-One, is probably the number one example how constant extension and decades of maintenance create symptoms of high complexity resulting in higher than necessary costs.

Some of the recent functional enhancements show very well how complexity can creep in. While users have been complaining about the inflexibility of the past ABAP-based reporting environment, the move to the much more flexible and function-rich Business Warehouse is burdened with the requirement to support an additional subsystem with its own database and administration environment.

[6] As stated before, this may be more difficult in a mySAP ERP 2005 based All-in-One.

While there is no doubt that SME-users need imbedded analytics and reports, they certainly do not want to be involved in setting up complex data warehouses just to comply with their daily reporting chores. SAP's partners, however, like this, as they view this as an opportunity for additional revenue.

Mastering the functionality of All-in-One and adapting it to the ongoing changes of an enterprise requires good skills and much planning. SAP's partners like this: it assures good after sales business with significant lower margin pressures as customers have little choice. In short, All-in-One is a high function, high effort product.

Integration

Historically, integration around SAP's systems has always happened using various ways that were all point integrations.

With the advent of integration brokers, hub-and-spoke integration solutions became available from a number of such vendors as Tibco, WebMethods, IBM, BEA or Microsoft.

SAP initially was very passive and did not offer any such integration hubs. When the SAP product portfolio became more proliferated, intra-SAP integration started to become an issue. SAP learnt a great deal about this from its cooperation with Commerce One, which had an integration set of its own. Vendors like Siebel challenged SAP demonstrating equal or better SAP integration of their functions than SAP could show. Hence, SAP started to offer integration functionality as part of NetWeaver consolidating all proprietary integration tools (such as BAPIs and IDOCs) and the XI (Exchange Infrastructure) integration server. It is important to note that the primary purpose of NetWeaver XI is to facilitate integration between SAP components and systems and that much of the SAP-to-SAP integration still relies on pre-SOA proprietary interfaces that have been incorporated into XI more for marketing reasons than out of technical necessity.. NetWeaver XI does not cover everything that SAP has out in the field equally well. Although, in principle, NetWeaver XI is capable to integrate most everything, backward integration capabilities with older R/3 systems are not part of the standard – SAP wants those

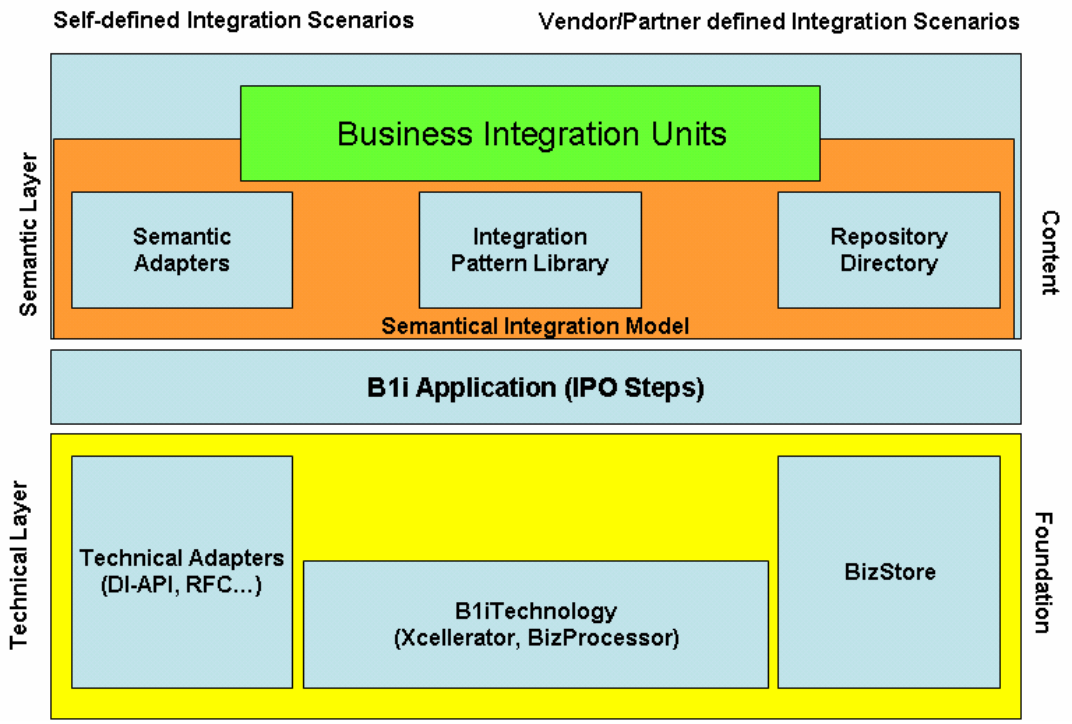

Figure 4 Business One integration architecture is different (Source: SAP)

installations to move on to newer versions. For SAP's low-end Business One system, SAP has designed a very different integration setup (see Figure 4)[7]. NetWeaver XI is neither the only way of integration within SAP's portfolio nor is SOA the established integration standard among SAP products.

After the application server, the messaging infrastructure is the second most important component of each enterprise middleware. Its primary task is to route messages between the individual components involved, transparently performing all necessary transformation steps and network communication. It should be obvious that the messaging infrastructure is likely to become a bottleneck, as all information within the system and to and from external systems involves the messaging system.

The messaging infrastructure is the central communication facility required for SOA applications. It is of utmost importance to business processes mapped onto SOA applications. Processes are assembled via messages between process steps. Thus, business process management is tightly coupled with the messaging system.

[7] For more details, see "SAP Business One – Simple, Affordable, Productive ERP for SMBs?", White Paper by Strategy Partners International,, Version 0.2, May 2006

SAP XI contains both the messaging infrastructure and the process management functionalities; products like IBM WebSphere separate these technically distinct areas into ESB or Message Broker for messaging and Process Server for process management[8].

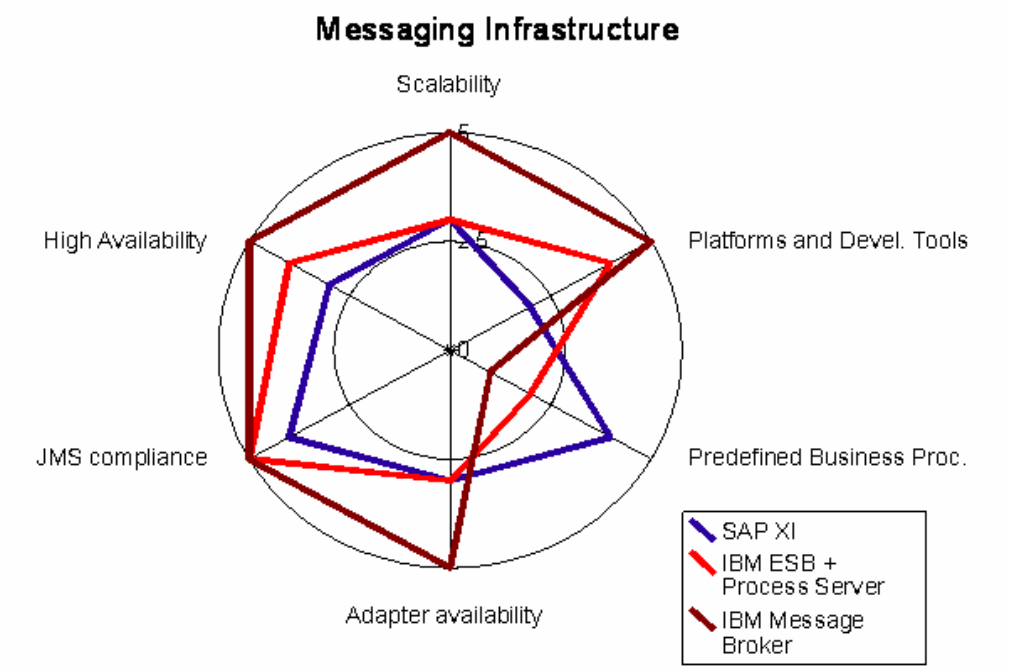

Figure 5 Comparison of message infrastructure - higher scores are better. Source: SPI, TNG

Longevity and investment protection

Customers buying ERP solutions intend to use them for a period of five to fifteen years. Hence, it is important to assess the future of All-in-One.

SAP is perfectly conscious of the fact that its current mid-market offerings have significant room for improvement. Over more than a decade, SAP has tried in various ways to solve the issue of how to get function rich products into a market that has high expectations yet cannot digest the complexity associated with SAP's traditional products.

Apart from high complexity, caused by much dead wood that accumulated over many years of maintenance and functional extension there is additional cause to reconsider the basic architecture. There are two main drivers for this: business

[8] For more details, see "Is SAP NetWeaver a Good Basis for Enterprise Application Ecosystems?", Strategy Partners Internationsl, July 2006

paradigm shifts and technology. As Software as a Service (SaaS) becomes a viable deployment option, further considerations gain importance.

SAP knows that the best possible technical solution would be a brand new product that has "the right genes" in its DNA. Such a product, however, would make the massive investments the many All-in-One partners have made into extensions, microverticals, infrastructure, and skills obsolete. It also would cause a migration issue for the installed base at some time.

SAP is pursuing this route with a product currently called "A1S". We expect a formal announcement at the time of CeBit in March 2007. Trying to mitigate the unpleasant side effects of a radically new product that also requires a new eco-system, SAP has chosen to deploy this new product at least initially only in a hosted way through SAP's own SAPHosting subsidiary. SAP has started to select a new set of partners that are meant to extend the yet very basic functionality of this product. SAP promises five times faster adoption, ten times (!) better costs of ownership[9] completely new models for process design with built-in process integrity, platform independent process composition, total masking of IT-complexity, support for distributed environments and collaborations. In its own marketing language, SAP calls this "Enterprise SOA by Design". The resulting platform is "dedicated for the mid-market". Partners expect this platform to yield concrete results some time in 2008. Henning Kagermann[10] does not expect significant revenue from A1S in 2007. We believe that SAP wants to test this platform in a part of the market that does not (yet) confront SAP with significant migration issues. We believe that SAP will also introduce new pricing – partners speculate that in the end A1S will cost about twice as much as All-in-One. SAP will try to justify this drastic increase by lower overall TCO – something we look forward to analyze in more detail.

As A1S is so radically new (although major parts of its so-called deployment units are still written in ABAP), it introduces automatically a host of questions related to the continuity of the mySAP ERP based products. All-in-One is one of these. In the last five years, SAP has managed to get over 70% of its installed base on

[9] As promised by CEO Henning Kagermann at the Financial Analyst Briefing in Frankfurt, January 24, 2007

[10] CEO of SAP AG in the financial results analyst conference January 24, 2007

mySAP contracts. Even the most optimistic analysts estimate that over 80% of the productive sites (Business One sites excluded) run R/3 and not mySAP. Introducing a successor system that is a technological quantum leap will raise serious doubts about the mySAP contract upgrades customers have been paying billions for.

Hence, SAP resorts to a two-pronged strategy. In an attempt to come to grips with the installed base AND at the same time to be able to field innovations, SAP wants to turn over time its R/3/mySAP installed base into something that is completely SOA based. This strategy is termed "Enterprise SOA by Evolution". Here, SAP has committed to stick to its mySAP ERP 2005 base product until the end of extended maintenance in March 2014. Note that standard maintenance is only guaranteed until March 2011. Beyond this until March 2014, SAP offers extended maintenance for a higher price (19% of list price in the first year of extension, 21% for the second, two-year extension). Not all products, however, are part of this 5-1-2 maintenance strategy – some products are subject to shorter commitments. SAP has introduced a new scheme for deploying maintenance and enhancements. These so-called enhancement packages are offered in an Enterprise SOA compliant form. Users can skip packages. Enhancement packages are cumulative and SAP promises that there is no need to upgrade stepwise.

While this looks like a promising improvement, it is not clear at this time how partners will fit their microverticals and extensions into this scheme. The same is true for all the other enhancements that are part of mySAP ERP 2005 vs. R/3 4.6c or 4.7: in all likelihood, partners will not exploit these new features in their applications. Users upgrading from the popular and widely installed version R/3 4.6c will need about 50% more main memory and 25% higher CPU capacity by SAP's own estimates[11]

While the 5-1-2 strategy is followed by several other vendors, it is disturbing that SAP does not commit to compatible successor products for mySAP ERP. Customers starting now with larger multi-year implementation projects have understandably solicited such commitments from SAP and were turned down as

[11] See OSS hint 517085 for more details.

the author was able to witness in a recent case. SAP wants to preserve what it believes is room for replacement of its current mainstream product line.

On January 16, SAP announced the vailability of a new version of All-in-One.[12]. It will be built on mySAP ERP 2005 ("Enterprise SOA by Evolution") and it will again, as before, address the issue of user complexity through a set of new "skins" that are meant to hide the complexity. SAP promises the "Look and feel of a PC", recognizing that apparently Microsoft succeeded in creating the yardstick for user interfaces. In addition, SAP announced improved reporting tools and some integrated CRM functions. Notwithstanding the title of the press release, no availability dates were disclosed,[13] but it was hinted that rollout of partner-based solutions will occur during 2007

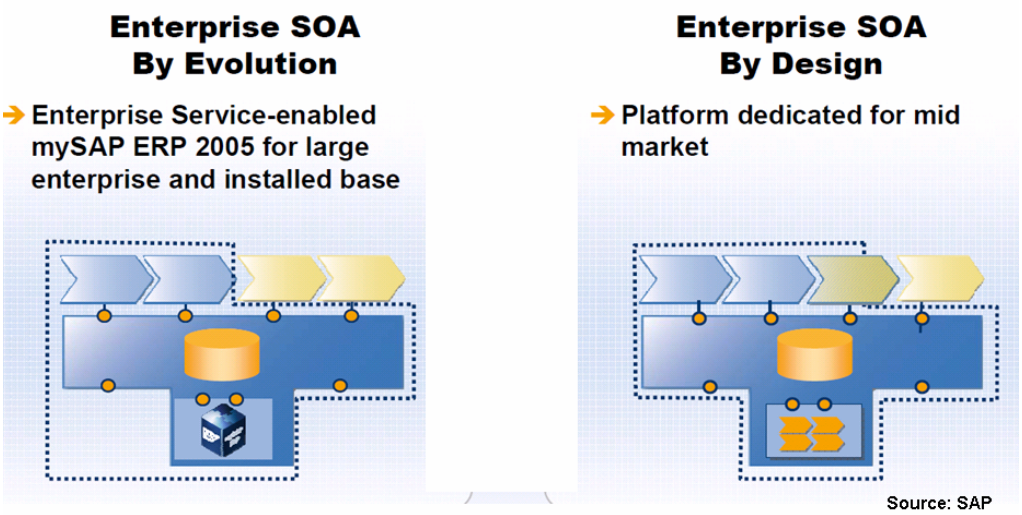

Figure 6 Enterprise SOA - SAP's dual pronged strategy (Source: SAP)

All-in-One is sold through a network of partners who usually add functionality to make the product more suitable for the industries they target. Over time, some 900 partners have created 940 so-called microverticals[14]. They have been created with R/3 or mySAP ERP in mind and cannot easily be ported to the new "by design" platform. Hence, SAP's marketing is putting both efforts side by side. This shows

[12] Occasionally, the term A1N has surfaced for this product.

[13] SAP press release "SAP Delivers Enterprise SOA for Midsize Companies with Next Evolution of SAP® All-in-One Solutions" January 16, 2007

[14] Henning Kagermann in his presentation in the financial analyst meeting on FY 2006 results in Frankfurt on January 24, 2007

the dilemma: mySAP ERP allows for evolution and amortization of development costs in a proven environment – but with high complexity and no maintenance guarantee at all beyond 2014 and A1S is a new, largely unproven base with low functionality, embryonic ecosystem, and, as yet, unknown functional details and economics. Existing partners have no choice but to continue with All-in-One/mySAP ERP. In about three to four years, however, they may find out that there is competition from A1S.

On the other hand, it is too early to call A1S a winner. The product is not complete, the deployment model (currently only SAP-supplied hosting) is not final, and the degree to which SAP is meeting its own goals in the areas of reduced complexity, TCO, speed of deployment, stability and scalability has not been checked by any independent source yet.

SAP does not commit directly to maintenance plans for thr currently marketed All-in-One product in any way. Rather, there are quite nebulous statements like ”SAP All-in-One packages are driven by SAP and may be developed in collaboration with partners who then define the corresponding release and maintenance strategy” or “All qualified mySAP All-in-One partner solutions are released and maintained by SAP partners who also define the corresponding release and maintenance strategy. They are based on mySAP Business Suite applications”[15]. In our view, this is rather inadequate.

Quality: channel aspects

As explained before, All-in-One is not really a product, it rather is a way of packaging and fielding mySAP ERP 2005 based solutions into the upper mid-market. As this is done exclusively through SAP’s partners, quality is strongly contingent on the performance of these partners. SAP itself has credibility for the quality of the base product – much of it is proven any way. Since the number of productive mySAP ERP 2005 installations is still low compared with R/3 4.6c, the quality customers can expect will not match that of a heavily used five year old mature product.

[15] See “SAP’S RELEASE STRATEGY”, SAP document 50 019 667 (06/10), page 24

SAP has a qualification program for All-in-One solutions. It focuses more on marketing than on product quality. The product quality related elements of this program are:

- Compliance with SAP release strategy
- Correct usage of interfaces for add-ons
- Absence of critical system modifications
- Performance (usually as reported by two reference customers)
- Technology usage

The partner gets the qualification for 12 months only. The qualification is per solution and needs renewal. It is, however, not a strict quality assurance program, as the main focus is on assuring that the partner can sell the solution successfully.

Since the end 0f 2002, SAP is trying to push "Best Practices" for All-in-One. In 2005, the technical approach was changed. As of then, the distinction between a demo solution and an implementation base was dropped. SAP now offers the Best Practices Installation Assistant, a kind of wizard that aims at maintaining user related data and templates through a library of building blocks and a building block manager. This was offered for mySAP ERP 2004 and we expect a n improved version for mySAP ERP 2005. Using Best Practices and the Wizard is not compulsory for partners – SAP strongly recommends it and it may even become enforced over time.

Upgrade Path

As All-in-One is based on an unmodified mySAP ERP 2005, upgrading to a "full" mySAP ERP 2005 is technically speaking a trivial act. Below 250 users, SAP sells the configuration usually through its partner channel and above this limit, SAP sells directly.

There are, however, some subtle differences. First, SAP does not sell the microverticals offered by partners. SAP, however, will be flexible enough to involve a partner of choice if a customer desires to use a microvertical in a larger environment, provided it does not compete with SAP's verticals.

Second, SAP structures the pricing of its own verticals and that of mySAP ERP differently for larger accounts. All-in-One has only a user based pricing scheme whereas SAP uses in direct sales additional business related metrics that can result in steep price increases and difficult to handle budget situations. This difference in

price structure causes budgeting difficulties when upgrading because it means transitioning to a different, more expensive price model.

Third, SAP's channel partners have been often more flexible when it came to concessions. Deferred payments, clauses for rescission, discounts on maintenance are more easily negotiated with partners. SAP is tightening its controls and some of the creativity may go away as the reins are shortened.

Fourth, SAP's partners are strongly encouraged to engage on fixed price implementations which SAP itself is not too happy to get involved in.

Fifth, it makes a strong difference with regard to intellectual property who provides customer specific extensions. If SAP does it, the rights will be with SAP and the extension may become part of a future base release that even may carry an upgrade fee for the customer notwithstanding the fact that he already has paid for the creation of this functionality. Of course, he will have to pay maintenance, too. If, on the other hand, an SAP partner is recruited to create these extensions, he is free to engage on any arrangements regarding this issue the customer may require.

Note also that chosing All-in-One does not automatically make the SAP partner who sold it responsible to provide future upgrades for his microverticals. The partner's microverticals are qualified on a yearly base and they may or may not be requalified the next time. Upgrading from, say, an R/3 4.6c based All-in-One microvertical to mySAP ERP 2005 involves obtaining a license upgrade for the underlying R/3, a similar upgrade of the DBMS license and other third party software that is installed[16]. Furthermore, it is up to the discretion of the SAP partner whether he follows SAP's example and charges for the upgrade of the partner-provided microvertical.

[16] Vendors of such software leverage SAP's view: as SAP positions mySAP as a product that is different from R/3, the other vendors argue that a newer version of their software, usually obtainable against an extra fee is required.

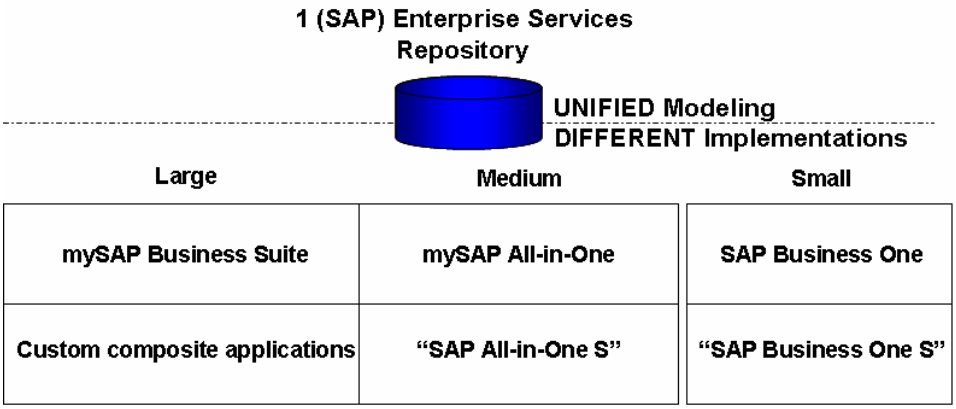

Figure 7 Trivial upgrades due to a common Enterprise Services Repository? (Source: SAP)

Additional complexity may arise due to SAP's tendency to re-package and re-bundle its software While Henning Kagermann stated in the CeBit 2006 press conference (see Figure 7) that the future common Enterprise Service Repository plus a unified modeling environment would hide the different underlying ERP implementations making transitions, upgrades, and migrations easy, cheap, and painless we see that silently one of the targets has passed away. The mySAP Business Suite is no longer offered to migrants and new customers – it has been replaced by a set of 170 different SAP applications that are industry related and that, in many cases, overlap with functions offered in All-in-One microverticals. Here, upgrades will have to be assessed even more carefully weighing circumstances and alternatives.

Reduced Complexity and Costs of Ownership

SAP tries to position All-in-One as a significantly less complex product when compared with mySAP ERP. This, so goes the message, should also translate into significantly lower costs of operation.

Most of the complexity reduction has been achieved in the area of implementation. Preconfiguration and partner-supplied microverticals together with the SAP Best Practices reduce implementation costs, shorten projects and the associated risks. The ideal is to knock down implementation to an average of 75 person days for general implementation plus another 50 person days for customer specific adaptations.

SAP claims that All-in-One can reduce implementation efforts by more than 50% over conventional approaches[17]. This is based on two key factors: preconfiguration using SAP's Best Practices and the significantly lower hourly rates of the All-in-One partners.

These partners offer frequently very deep discounts – deeper than those SAP would give directly even if the customer would be a smaller named account. The partners have been more flexible when it comes to maintenance pricing, too. As most of the partners are not public companies, those operating outside the United States have been seen making concessions that would not easily comply with standard accounting practices. All of this can reduce cost.

Once bought and installed, there is not much of a difference in complexity and cost of operation between a mySAP ERP and an All-in-One system because they are literally the same. In SAP's own judgment, there is plenty of room for additional cost reductions

[17] SAP Solutions Brief, SAP order number 50 061 060

Bottom Line

SAP, that is very clear, is serious about the mid-market. It also knows that All-in-One, its midmarket delivery architecture for mySAP ERP, is too complex, too difficult to learn, and too costly. The delivery architecture is only a way to shoe-horn a complex product into a market that longs for simple , powerful, and efficient solutions. The present All-in-One is not a good fit and does not provide the base for the growth that SAP need. SAP wants to correct this.

SAP would like to have the installation numbers SAGE has for its products and upgrade all of these installations to pricey environments like mySAP over time. With All-in-One, there are hard limits for this endeavour.

SAP is conscious that nothing short of a completely rearchitected product will ultimately do the trick. This product, called A1S at this time, is not yet out, does not yet have an ecosystem, and, understandably, is not yet assessable for users and partners alike. If successful, it will be SAP's platform for 2010 on. Initially deployed as a hosted lower mid-market platform (in SAP-speak: the market of "non-buyers"), it is likely to replace all mySAP-based products. This makes a lot of sense and is supported by SAP's historic policy of limiting parallel support of technology platforms.

SAP has also declared that A1S will have a different, margin boosting business model for A1S. This sends a mixed message into the market: lower costs of ownership AND more money for the vendor. With the proff of lower costs of ownership still a few years out in the future this is vision, not reality.

On the other hand, mySAP is mature and vastly more proven than A1S. Together with R/3, it has about 20000 installations. Many of these are so satisfied that they hardly consider migrating from R/3 against a sizeable upgrade fee to mySAP. R/3 and mySAP have a very rich ecosystem and over 900 SAP partners world have invested into skills and microverticals. There is no way they can switch easily to an incompatible successor platform no matter how advanced and brilliantly engineered it may be.

Hence, SAP has chosen to do two things – to be modern and conservative at the same time. As SAP guarantees the future of mySAP 2005 until 2014 (and, as evidenced, not any longer), SAP appears to have a strategy to build the industrial strength and market position of A1S until 2014 so that it will attract enough

customers and partners to succeed mySAP ERP. In the interim, the All-in-One concept is offered based on mySAP ERP 2005 plus, as we expect, from mid 2007 additional configuration and user interface refinements. For new customers this is not enough: as the life of an ERP-installation is estimated between 10 and 20 years, a seven year guarantee until March 31, 2014 is not enough. We therefore encourage customers and prospects too seek better guarantees from SAP and to carefully weigh market alternatives with a better lifecycle outlook. All-in-One as a delivery architecture may be future proof, the underlying software product is not. It is a derivative of mySAP ERP 2005 and it is unclear how a product that does not stand on its own feet can have legs going forward when the original product's future is uncertain beyond 2014.

Appendix 1: Components of mySAP ERP 2005

Key components as listed in the SAP publication "What you want to know about upgrading to mySAP™ ERP 2005", page 9:

- **SAP ERP Central Component** for financials, human capital management, procurement and logistics, product development and manufacturing, and sales and service
- **SAP NetWeaver** – with the following components:
  - SAP NetWeaver Business Intelligence
  - SAP NetWeaver Portal
  - SAP NetWeaver Exchange Infrastructure
  - SAP NetWeaver Mobile
  - SAP NetWeaver Application Server
- **Self-service procurement** functionality, available in the mySAP Supplier Relationship Management application
- **SAP Strategic Enterprise Management** application
- **SAP E-Recruiting** application
- **SAP Learning Solution**
- **SAP Financial Supply Chain Management** set of applications (including treasury and bank communication solutions)
- **SAP Employee Self-Service** application
- **SAP Manager Self-Service** application
- **Collaboration Projects** (cProjects) application
- **SAP E-Commerce application** (Web application component)
- Support for industry-specific applications

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