# BUILD A FOUNDATION FOR THE FUTURE WITH SAP IN THE CLOUD

Authors:

Tom Seal
Archana Venkatraman

January 2023

An IDC Analyst Connection sponsored by AWS and SoftwareOne

IDC #EUR150044823

# Build a Foundation for the Future with SAP in the Cloud

Questions posed by: AWS/SoftwareOne

Answers by: Tom Seal (Senior Research Director, European Enterprise Applications, IDC) and Archana Venkatraman (Research Director, Cloud Data Management, IDC Europe)

## Q1. What are the business drivers behind organizations moving their ERP to the cloud?

Business leaders recognize they need to modernize their SAP ERP to meet the future needs of their businesses. The uncertainties organizations have faced in the past three years, combined with emerging challenges, only reinforce the view that investments will be needed in the ERP applications that sit at the core of the business. For most organizations, SAP modernization means moving their existing SAP instances to a cloud environment or adopting SAP S/4HANA running on cloud infrastructure. The reasons for moving an ERP to the cloud include long-term strategic drivers and the need to address more immediate pressures. The strategic drivers include improving agility, the ability to innovate, and environmental sustainability. Business leaders are increasingly understanding that cloud infrastructure can deliver these benefits. This growing understanding of the strategic value of cloud is leading more and more organizations to choose to host their ERP in the cloud. The business drivers for migrating ERP to the cloud go far beyond the application itself, with the strategic advantage coming from the fact that the ERP can be tightly integrated with other cloud applications and services.

The more immediate pressures to modernize SAP include the need to modernize infrastructure and reduce operational risks. When the time comes to renew infrastructure, organizations choose cloud solutions partly to avoid new capital investments but primarily because they do not see operating infrastructure as core to their business. Organizations do not want to compete for talent to support non-core business areas. By moving to the cloud, organizations are reducing the need for infrastructure skills, enabling them to focus on the skills associated with digital innovation.

When assessing the business case for SAP modernization, organizations need to put a financial value on both the immediate and longer-term benefits. By looking only at the easier to quantify shorter-term benefits, firms often make very tactical decisions or decide to do nothing at all — postponing an important decision and holding back progress.

## Q2. What opportunities can organizations unleash by modernizing their SAP environments?

When organizations modernize SAP, they want to reduce the cost of operating their ERP and capitalize on capabilities not available with their legacy implementation. Organizations that have modernized SAP say it is the agility of the cloud that enables many of these opportunities.

In this context, agility means the ability to scale and adapt SAP quickly to support business change. Cloud infrastructure enables agility through its inherent scalability, but more importantly through its extensibility. Modern cloud platforms dramatically improve the speed and ease with which new capabilities can be added to or integrated with SAP. These could be advanced AI capabilities that are native to the cloud platform or cloud-native applications licensed or developed in-house. It is the ability to quickly and frequently adapt SAP that unlocks opportunities.

An ERP can contribute directly to business agility by enabling process flexibility and improving data visibility. It also has an indirect role to play by being able to cope with rapid changes occurring around the application itself. These changes could include new applications, new business models, or new partner organizations, all of which could require changes to the way an ERP is integrated and utilized.

Sustainability is another key catalyst for change. Organizations recognize that datacenters consume large amounts of energy and that cloud infrastructure offers a way of running their SAP application more energy efficiently. Due to high energy prices in 2022 and the need to show measurable reductions in the environmental impact of business operations, addressing the efficiency of IT infrastructure is a priority for organizations. Utilizing cloud infrastructure optimally to run SAP is a rare quick win in the battle to reduce emissions.

## Q3. What are the risks of embarking on this journey?

SAP modernization offers many potential benefits, but it does come with risks and uncertainties. This is to be expected with any major business change, and can be navigated and mitigated with the right support. First and foremost, it is vital to evaluate the various modernization paths to determine the right one for the organization. Whether retiring current systems and replacing them with SaaS, lifting and shifting existing operations from on premises to the cloud (with or without additional revisions to processes and services), or pursuing another pathway altogether, decisions at the start of the process not only determine the direction of SAP modernization in the short term but also have a big impact on future operations and innovations.

Once an organization has chosen its pathway, it can use the right tools, skills, and methodologies to manage the tasks ahead. Failing to develop robust business cases that get full buy-in from all parts of the business will put any modernization efforts on the back foot. Unrealistic timelines and an inability to identify the right workloads to migrate at the right times are likely to result in setbacks that could be overcome or prevented with the right experience. Pursuing a more traditional large-scale transformation that fails to deliver value and return on investment

through the process will only burden modernization initiatives with greater budgetary pressures, especially at times of ongoing economic uncertainty.

As with any major transformation, governance and security also need to be considered during an SAP modernization initiative. Organizations need to find the right balance between managing governance and security needs while also keeping costs under control and ensuring speed of transition. Any attempt to place too heavy an emphasis on one of these at the expense of the others is likely to create more challenges.

Focusing too heavily on the mitigation of technical risks and challenges is also a risk in itself. There is a risk that so much focus is placed on the technical migration that the needs of the business become secondary to the project team. Losing focus on the business objectives can jeopardize the business case and support from stakeholders.

## Q4. What are the best practices when embarking on this journey? Any examples?

The key is to recognize that the ERP modernization journey will involve multiple legs for most organizations. Breaking the journey into steps helps manage the cost and risk, as well as front-loading business benefits. This needs to be planned carefully, though, and organizations always need to think about preparation for the next stage of the journey. Think of each step as removing some of the unwanted legacy, while also introducing elements of the future ERP environment that the business requires. This avoids having long periods where the IT function is consumed in technical migration challenges, while the business sees little benefit. Maintaining support from across the business is critical to ERP modernization and to the journey to the cloud in particular.

For many organizations, migrating SAP to the cloud is a one-off activity, so the migration skills are unlikely to be available in-house. With their experience from similar projects, IT service providers can bring a lot of value to SAP modernization programs. This experience helps anticipate and eliminate risks, and bring in ideas and innovations from the service provider ecosystem. Many service providers have also developed tools and automation to accelerate the migration process, reducing cost and the likelihood of human error. When selecting a services partner to support an SAP modernization program, the availability and quality of skills, experience, and tooling are the key decision criteria.

The timing of critical modernization steps should also be considered carefully. Every organization has critical times of the year where any disruption or even distraction must be avoided. The best executed migrations will be quickly executed during a quiet period, and with meticulous planning and communication. The communication must go beyond the practicalities of the project to ensure teams recognize the importance and benefits of the change.

## Q5. What can you do during the migration to set you up for accelerated success and make it the blueprint for other high-value projects?

SAP applications have long life spans, often decades, during which time businesses evolve operationally and organizationally. Over the years, ERP architectures can become extremely complex as new businesses are acquired and customizations are introduced to meet new business needs. This leaves organizations with more ERP instances than required, data quality problems, and customizations that are costly to maintain and may have become non-essential.

These accumulated complexities hold the business back, so ERP modernization should aim to leave as much complexity behind as possible. The goal should be standardization where possible — across the business, but ideally also to industry or business norms. Business leaders increasingly believe that the core of most businesses can be run on standard processes, as all businesses must work to the same set of regulatory rules. In technical terms, this means working toward a "clean core," an ERP without customizations made to the key modules and systems of record.

Two key actions are data cleansing and removing customizations. Investments here will bring immediate benefits, but also make further modernization quicker, easier, and more valuable to the organization. For many SAP customers the modernization journey will be a multistage process, with the inevitable move to SAP S/4HANA the most challenging leg. Building a stable cloud foundation, with minimal technical debt, will simplify and accelerate the move to SAP S/4HANA when the time comes.

## MESSAGE FROM THE SPONSOR

The most successful SAP cloud migrations are focused on business transformation, rather than next-gen hosting. The extensibility of the cloud, particularly the native data, analytics, artificial intelligence, and machine learning services available across all public cloud, wrapped around a clean ERP "core," can add enormous value when aligned to business strategy.

Unlocking business agility is the key driver for SAP cloud migrations, but organizations must carefully balance this with stability to ensure that platforms remain resilient, reliable, and efficient. To sustainably deliver business agility and stability in the cloud, organizations must make it a priority to build a cloud operating model as early as possible, ideally before the migration. Running SAP in the cloud requires a paradigm shift in the way organizations run, and while the focus on technology is key, it's the combination of people, process, and technology that will bring the desired business outcomes. Kick-start your SAP cloud migration journey with SoftwareOne.

## About the Analysts

Tom Seal, Senior Research Director, IDC European Enterprise Applications

Tom Seal is a senior research director in IDC's European enterprise applications team. He has over 20 years' experience as an analyst, consultant, and technology procurement manager. He focuses on the ERP market and the future of the finance and procurement functions. Current research includes investigating the business case for ERP modernization and the economics of cloud technology. He is also part of IDC's Intelligent Business Operations and Augmented Humanity practices.

Archana Venkatraman, Research Director, Cloud Data Management, IDC Europe

Archana Venkatraman's primary research coverage is cloud data management. She covers multiple topics, including data protection, edge to cloud data trends, application and data availability, compliance, data integration, intelligent data management, DataOps, data quality, and multicloud priorities and trends. She also co-leads the cloud practice and contributes to IDC Europe's DevOps and AI research practices.

## About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.


### IDC UK

5th Floor, Ealing Cross,
85 Uxbridge Road
London
W5 5TH, United Kingdom
44.208.987.7100
Twitter: @IDC
idc-community.com
www.idc.com

### Global Headquarters

140 Kendrick Street,
Building B
Needham,
MA 02494
+1.508.872.8200
www.idc.com


## Copyright and Restrictions


Any IDC information or reference to IDC that is to be used in advertising, press releases, or promotional materials requires prior written approval from IDC. For permission requests contact the Custom Solutions information line at 508-988-7610 or permissions@idc.com. Translation and/or localization of this document require an additional license from IDC. For more information on IDC visit www.idc.com. For more information on IDC Custom Solutions, visit http://www.idc.com/prodserv/custom_solutions/index.jsp.

Copyright 2023 IDC. Reproduction is forbidden unless authorized. All rights reserved.