<u>SAP announcements unsettle user companies</u>

On-premise customers
cut off from innovations?

Walldorf, Aug. 3, 2023 - At SAP's annual press conference on July 20, 2023, Christian Klein, CEO and member of the Executive Board, announced that SAP's latest innovations would only be available in the cloud. Specifically, they are to be accessible only to customers using SAP S/4HANA Cloud, Public Edition or SAP S/4HANA Cloud, Private Edition via GROW-with-SAP or RISE-with-SAP contracts. This does not mean that on-premise solutions in general will not be functionally enhanced. But on-premise customers cannot, for example, benefit from major innovations such as artificial intelligence (AI) and green ledger. This also applies to larger function modules and extensions based on the Business Technology Platform (BTP). At the same time, SAP plans to increase maintenance fees. From the point of view of the German-speaking SAP User Group (DSAG), SAP is leaving numerous loyal customer companies in the lurch with this approach.

SAP's announcement that it will make the latest innovations, such as AI, Green Ledger, and larger function blocks, as well as enhancements to the Business Technology Platform, available only in the cloud will hit on-premise customers, direct-to-customer hyperscalers, and managed services providers particularly hard. Specifically, it means that these innovations planned by SAP, for example, will not be available to companies using a hosted hyperscaler implementation outside of RISE with SAP. In addition, they would not be available in on-premise implementations of S/4HANA. "From DSAG's perspective, this is a 180-degree turnaround from previous statements. SAP had previously claimed it did not want to limit enhancements to cloud-based offerings. The statement is a major blow. It amounts to a paradigm shift," says Jens Hungershausen, DSAG board chairman.

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30 percent price increase for new innovations

The software manufacturer also specifically announced that it will not offer artificial intelligence (AI), generative AI and sustainability functions in on-premise versions. Instead, corresponding functions are to be part of RI-SE-with-SAP and Grow-with-SAP contracts - although, according to current information, this is to cost an additional 30 percent as an option for the premium package with the new innovations.

Companies that have planned to convert to S/4HANA and want to use existing licenses or purchase new ones to implement either in their data centers or cloud-natively using a hyperscaler's Infrastructure-as-a-Service (IaaS) environment should be aware: They will thus not be able to use new AI and sustainability functions, according to SAP. "For us, this naturally raises the question: if this is the case for AI functionalities, what will existing customers have to reckon with for other innovations? Since no technological reasons can be found for this, the impression is created that there is a two-tier society at SAP with regard to customers.

As an interest group representing more than 3,800 companies in Germany, Austria and Switzerland, we must now advise companies to carefully reconsider possible planned S/4HANA implementations with regard to the operating model - especially against the background of the renewed increase in maintenance. The announcement is a real show stopper and a big disappointment," says Thomas Henzler, DSAG Board Member for Licenses, Service & Support.

New SAP sales strategy shatters relationship of trust

DSAG had criticized the software manufacturer as recently as the beginning of the year for not focusing enough on on-premise customers and concentrating too much on cloud-based innovations and offerings. "Those who have relied on S/4HANA on-premise so far will be left behind by SAP's new strategy," says Jens Hungershausen, adding, "Customers who have already invested in S/4HANA on-

premise may now get the impression that they have wasted millions. That doesn't build trust if SAP doesn't at the same time show customers clear development paths for a smooth transition to the cloud and next-generation ERP without jeopardizing the investments they've made." In addition, customers need a reliable statement from SAP about which specific enhancements can be expected in an on-premise environment in the future for their individual initial situation and decisions. SAP is called upon to provide clarity quickly and unambiguously.

In recent years, SAP has encouraged customer companies to move to S/4HANA - including small and medium-sized enterprises. Many customers have accepted the challenge and implemented brownfield and greenfield approaches, despite the complexity of the systems. Significant investments have been made with the expectation of receiving the latest technology and innovations. DSAG has supported this SAP strategy. "However, the SAP focus now seems to be no longer on on-premise enterprise resource planning (ERP) solutions, but primarily on cloud ERP," classifies Thomas Henzler. Sebastian Westphal, DSAG technology board member, adds: "With the announcement of the original maintenance extension until 2040, SAP had also promised to provide innovations for S/4HANA and thus promised customers stability. From the customer's point of view, however, the question now arises: What is the value of this maintenance and innovation promise without the aforementioned areas if the system is not continuously supplied with innovations and is thus not developed to meet the needs of the companies?

Innovations only tailor-made?
A situation that causes incomprehension and uncertainty. "There are many loyal SAP on-premise customers organized in DSAG who followed SAP's strategy early on and opted for S/4HANA. They are now asking themselves what else they can expect in the future and whether this is just the beginning of many more innovations from which they will not benefit," says Thomas Henzler. The industry association has already had to observe this approach with concern in the increasing modularization of enterprise resource planning (ERP) systems, and it is

now finding a continuation in the field of AI. From Sebastian Westphal's point of view, it is clear that those who have relied on S/4HANA on-premise up to now have not only invested several times over because SAP only finished developing the solution over a period of years. "These companies have also had to cope with considerable investments as "first movers", which have quickly grown into double-digit millions."

Commercial bundles instead of independent products

The question of what else to expect is particularly justified against the background that RISE with SAP and Grow with SAP are not independent products. "In fact, they are essentially two commercial bundles that include S/4HANA Private Cloud or S/4HANA Public Cloud," explains Thomas Henzler. Since S/4HANA in the private cloud is basically on-premise technology offered through a different operating and licensing model, from DSAG's perspective this raises the question: Why shouldn't innovation be available to on-premise customers? "The rationale for prioritizing the public cloud is understandable given its potential. But the restriction for on-premise customers on major innovations such as AI, Green Ledger, and larger function modules as well as extensions based on the BTP is not, in DSAG's view. Rather, it appears to be a purely business decision in favor of the cloud and to the detriment of on-premise. In addition, SAP is providing far too little communication support and justification," says Thomas Henzler. The industry association is calling for more clarification for its members.

This is even more urgently required because, for example, on-premise customers use a different functional scope than those who use S/4HANA Private Cloud Edition. In administration, for example, modules such as travel management and the SAP Learning Solution are used that are only available on-premise. For DSAG, it is therefore clear that SAP's announcement will hit public administration very hard and cost a lot of money. Not to mention the fact that the sector will be systematically cut off from certain innovations. This is a fatal sign, especially in view of digitization in the DACH region. It is precisely these customers who now

need an answer from SAP as to how they can participate in the new developments and innovations.

New technologies also available on-premise?

Another point that complicates the situation from the user's point of view arises when technological aspects are discussed. Questions are raised regarding the availability of technologies such as machine learning (ML) and artificial intelligence (AI) in S/4HANA on-premise systems. Similarly, the numerous new AI functions around ChatGPT and OpenAI give rise to questions as to whether and to what extent these can also be used on-premise or connected to on-premise solutions.

In terms of sustainability, SAP is not doing itself or its customers any favors with this approach. SAP advertises that it will make companies more sustainable, but charges an additional fee for "innovation" for the necessary enhancements. "However, announced solutions do not yet exist and yet are already to be priced separately. This is incomprehensible," says Sebastian Westphal. As a result, SAP is deliberately excluding a significant portion of its customers. Clear and comprehensible communication about the pricing of sustainable solutions is therefore also urgently needed.

Innovations with identical scope of services also on-premise

Overall, from DSAG's point of view, the statements have sparked an important discussion about SAP's cloud strategy. "SAP wants companies to move away from traditional licensing and implementation models. With this approach, the software manufacturer wants to force its customers to move to the cloud," says the DSAG CEO. From DSAG's point of view, however, this is not yet a viable path for all companies.

It now remains to be seen how the software manufacturer will react and whether it will take up the ideas. The DSAG demand is clear: All innovations for the S/4HANA public cloud or private cloud must be made available for S/4HANA on-premise with

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an identical scope of services. SAP must ensure a balanced approach to innovations and not lose sight of customer satisfaction. DSAG and SAP have started discussions to show solution paths to the cloud for on-premise customers as well, while protecting investments. "We could understand a cloud-first strategy from SAP. However, cloud-only is still not an option from our point of view," says Jens Hungershausen. Functional development has always been part of maintenance. Accordingly, SAP must once again ask itself the question of the equivalent value of maintenance fees.

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About DSAG
The German-speaking SAP User Group (Deutschsprachige SAP-Anwendergruppe e. V., DSAG) is one of the most influential SAP user groups in the world. Its strong network comprises more than 60,000 members from over 3,800 companies, ranging from medium-sized businesses to DAX corporations, and representing all industries in Germany, Austria, and Switzerland. This gives the group unparalleled insights into the digital challenges facing companies in these markets. DSAG uses this knowledge to represent the interests of SAP users and to support members on their paths to digitalization. Further information is available at:
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