7 Ways to Reduce your SAP TCO

Reducing the total cost of ownership for costly IT systems such as SAP can yield big savings. Put these practical tips into practice to wring more out of your budget.

For questions and additional information
e-mail info@panayainc.com or visit www.panayainc.com
Introduction
In many IT shops, the SAP implementation is the biggest-ticket item in terms of budget. There may be no escaping that fact, but there are ways to try to lower your total cost of ownership.

Here we offer 7 practical tips from SAP experts for reducing your SAP TCO, starting with a proper approach to your initial implementation. Even if it’s too late for that in your case, you’ll find lots of other practical ideas here, including our final tip, which is to revisit your initial SAP goals to make sure you’re achieving them and getting maximum value from the implementation.

1. Define Your Scope
“Right out of the gate, proper scoping of the implementation is one of the first things you have to do,” says Frank Powell, chief operating officer at Symmetry Corp., an SAP hosting provider and consultancy. “It’s very easy for a project to get blown way out of proportion with third party add-ons and customization.”

Avoiding such a situation requires lots of communication between IT and the business owners of the project to define requirements, set expectations and map out required resources, says Dan McNerney, CEO of the SAP consultancy MindWorks, Inc. “Clients have a tendency to try to do more than they have the capacity for,” he says.

Project managers need to agree on and define the exact scope of an SAP project, then determine which components can be handled by in-house experts and where outside help will be required. When hiring vendors to help, push them to be clear about how their solution matches your project scope document in order to avoid unexpected expenses, Powell says.

Kevin Knuese, vice president of delivery for Symmetry, says it’s also a good idea to use fixed-fee pricing, meaning there’s a cap on how much you will pay for the project. “Fixed fee pricing forces vendors to think about all the details that need to be included ahead of time,” he says.

For projects that are expected to cost $5 million or more, Powell says it’s also a good idea to start with a pilot or prototype. “Maybe you spend $500,000 and really learn what you’re getting into and what the pitfalls might be,” he says.
2. Standardize
The idea of limiting scope also applies after the initial SAP implementation, where experts say customers can save money by standardizing numerous facets of their SAP environments, from hardware to applications.

The more variation you have in terms of applications, hardware, operating systems and the like, the more competencies you need, McNerney says. “It gets difficult to maintain a lower cost of ownership when you have so many people in the organization to support it all,” he says.

TiVo, Inc. not only standardizes its hardware and databases, but also its entire software development lifecycle, says Richard Rothschild, Senior Director of IT, Facilities & Security for the firm. “Everyone, no matter what their request is, goes through the same process of development, quality assurance, staging, then production,” he says. “It simplifies the whole process, making it less expensive and more efficient in the long run.”

Standardizing on SAP code whenever possible will likewise keep costs down, Powell notes. “If you can find the function you need in standard SAP code, you don’t need an ABAP developer to maintain it,” he says.

Rothschild goes along with that idea and his company goes a step further, by requiring business groups that want a capability outside of what is available to everyone else to take responsibility for funding its development. That requirement has resulted in fewer and more well-defined requests. “Making people accountable makes them more willing to meet with you up front and make the requirements very clear, which improves the chance the implementation is going to match the requirements,” he says.

3. Establish a Center of Excellence
Standardization also lends itself to a center of excellence model, where members of a central IT group each become experts in different domains and exercise that knowledge for the good of the entire organization. Such a model is more efficient and less costly than requiring deep domain expertise in smaller IT groups spread throughout different groups, departments or branches, proponents say.

TiVo uses a center of excellence model and puts a premium on training to ensure the company has IT specialists who are experts in their respective areas. The concept not only helps keep costs down, it provides for a more well-rounded IT staff because they have to pay attention to multiple areas of the business.

“They get a better appreciation of the whole business function,” Rothschild says. “If they’re only focused on the Finance piece of SAP, they may lose sight of what marketing or business intelligence people may need SAP for.” Additionally, the specialized training helps with employee retention. “It’s a huge factor for these technical guys because most of them love learning new things, so they’re a lot less likely to go somewhere else.”
4. Practice Proactive Management
Having experienced personnel also makes it easier to be proactive in terms of managing your SAP environment, which Powell notes is another way to keep costs down. “A support team that’s reactive translates into more downtime, longer time to implementations, greater effort, maybe higher staffing costs and more turnover,” Powell says. The key is to use monitoring tools to keep an eye on criteria such as capacity management, memory consumption, disk usage and user memory maintenance.

“People don’t use SAP Solution Manager as well as they should and there are a number of third party tools for monitoring and alerting,” he says. “It comes down to understanding what to look at, what’s unique about your environment and staying on top of it.” Adds Knuese, “There’s no substitute for a keen eye and some sharp fingers.”

5. Consider Outsourcing
If you don’t have those keen eyes in house, of course, you can always rent them. “If you team with the right company, you can bring in a deep bench and strong expertise to help drive better business practices, taking advantage of their experiences with other companies,” McNerney says.

Outsourcing can take many forms, beginning with hiring offshore developers. “It’s such a mature market, there’s no question you can get a lower TCO by maintaining a small pool of internal resources who are close to the business, who really understand the business, then leverage off-shore developers in non-core areas,” he says. “You can get 2 or 3 off-shore developers for the equivalent of one in-house, and it makes little sense to employ high-cost, internal resources for non-core tasks.”

Some shops may choose to outsource the day-to-day operation and maintenance of their SAP environment to a company like Symmetry. “The benefit there is I’ve got a team of 50 Basis consultants and they know a lot about how to manage, manipulate, tune and repair a system from their experience with numerous clients,” Knuese says.

A third option is to outsource the hosting of your SAP environment, especially if you’ve got lots of aging servers in your data center. “Some clients are renting a very large space for their aging servers, costing them in excess of $25,000 per month,” McNerney says. “They could virtualize and go with a hosted data center for probably a quarter of the price, and manage and maintain it at a much lower cost.”

6. Don’t Skimp on Testing
Whenever you introduce a change to the SAP environment, whether a new application, Enhancement Pack or Support Pack, you need to thoroughly test to ensure the change doesn’t break anything. Testing, of course, can be a laborious, time-consuming process that involves lots of repetitive tasks, which makes it ripe for automation, McNerney says. “With many clients, we’ve been able to cut out millions of dollars and reduce the burden on both IT and the business by using automated tools,” for functional testing, regression testing and other areas, he says.
Panaya, Inc. is one company that offers automated tools, on a software-as-service basis, that help companies identify what changes are required to implement SAP upgrades, Support Packs and other enhancements, and what the resulting testing plan should be. On its recent upgrade to SAP ECC 6, Mercedes Benz shaved 50% off its development and testing phases as compared to previous upgrades by using Panaya’s solution (see case study here).

7. Get Maximum Value
Another way to reduce your TCO is to extract more value out of your SAP implementation, McNerney says. “If I can leverage existing products where I have a significant investment and not purchase additional products for point solutions, I'll be avoiding costs and maximizing ROI,” he says. “If you made the investment in SAP you should do everything you can to make sure you’re leveraging the tool as much as possible.” Many of his clients make a habit of looking to SAP first to see if it can meet any new business requirement, for example.

Symmetry’s Powell agrees, noting, “If you only implement a sliver of SAP or you aren’t willing to change your business processes to fit the tool, are you truly leveraging it?” A good practice is to revisit your original SAP implementation goals and assess whether they’ve been met. Perhaps your goal was to reduce overall inventory, for example. “If you haven’t achieved that, you need to go back to those business departments and say, ‘We implemented SAP, we have rock-solid inventory reporting, why haven’t we decreased inventory?’ It becomes a management challenge now to really leverage the tool,” he says.

Customers can also extract more value by utilizing additional SAP modules, Knuese says. If a company relies on Warehouse Management to maintain inventory, perhaps it could also leverage the SAP ERP HCM module for human resources functions. By integrating the two, the company can get a more complete picture, with the ability to determine how many stock pickers were in a given warehouse on a particular shift, who they were, their pay rates and how much stock they picked, for example.

“All sorts of traditional activities can happen inside of SAP and become inter-related,” Knuese says.

In short, the trick to extracting maximum value from SAP, and thus decreasing your TCO, is to have clear communication with the business side in terms of what they want SAP to do for them, he says. “If you can define that business requirement early on, and make sure the IT staff is up to speed and well-versed, that will certainly help you save dollars.”
About Panaya
Panaya’s Software-as-a-Service solutions enable companies that use SAP to save up to 50% of their application lifecycle costs and minimize the risks associated with system changes. Utilizing cloud-based simulation to analyze the impact of pending changes, Panaya automatically pinpoints which custom programs will break as a result of an upgrade or support package implementation and automatically fixes most of these problems. Panaya provides a complete solution for managing these changes, explaining how to fix the anticipated issues, fixing most of them automatically, suggesting the most efficient test plan, and calculating required project budget and resources. It’s the only upgrade automation solution that automatically fixes custom code issues and generates test scenarios.

To learn more, visit Panaya at www.panayainc.com

SAP is a registered trademark of SAP AG. SAP and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany and in several other countries all over the world.