

SAP SRM 7.0 – The Wait’s Over, But Is It Worth It?

Making SRM a Total Cost Success in Your Organization – Background, Tips, Strategies and Tactics Plus On-Premise vs. On-Demand Costs and Trade-Offs

Executive Introduction – Is SAP SRM 7.0 Hitting the Market at the Perfect Time?

Given the overall economic environment, 2009 would seem a highly inopportune time to bring any new type of product or solution to market. Capital spending is down. Order volumes across many industries have dried up. Borrowing is difficult – and expensive. And companies are forcing employees to do more with less (in the case of some companies like British Airways, they’re even asking employees to go without pay while staying on the job). Given these conditions, perhaps it’s not overly ironic that SAP’s latest procurement release, SRM 7.0, is actually poised to enter the market at an ideal time. After all, when savings and cost avoidance count more than ever before, procurement and finance organizations must achieve results as quickly and efficiently as possible. And what better place to turn to than systems that improve both transactional and operational efficiency while also reducing overall spend levels?

Granted it’s not just SAP that stands to benefit. But their timing is prescient. Indeed, many converging factors are driving renewed interest in SRM and procure-to-pay (P2P) technologies as we approach what very well might be the second year of a prolonged economic downturn (or stagnation, if you’re less pessimistic at this point). Consider how companies are increasingly looking for ways to control spending – not to mention stopping it before it occurs. In this regard, our research suggests that one of the most important unanticipated benefits of installing a procurement system with significant category coverage is that individuals inside companies do not just buy “on-contract”. When individuals know they are being watched, they buy less in general, often 3-10% less our research suggests. In addition, as companies push toward greater operating and management transparency, systems like SAP SRM 7.0 will help create new levels of compliance to reduce costs and commercial risk (e.g., eliminating the possibility of doing business with a supplier that does not maintain the proper insurance levels or lacks specific

environmental or diversity certifications that top-line contracts require). But perhaps most important of all, at a time when the cost of capital for many organizations is at a fifteen year record high, systems like SAP SRM 7.0 can form part of the P2P foundation that enables companies to begin exploring ways to reduce working capital requirements.

If it is not the perfect general marketplace storm driving the need for SRM adoption, it's most certainly the perfect technology/customer one given the specific state of the SAP installed base. Consider that more and more companies are delaying company-wide ERP upgrades and migrations yet still need to drive targeted savings opportunities. Just this week as this *Perspective* goes to press, we spoke to two organizations that recently put nine-figure SAP upgrade projects on hold (factoring in software and implementation costs as well). Or consider how more and more companies are looking for faster returns from their systems, scrutinizing total costs (and near term ROI) more than ever before. In this regard SAP SRM is one of the few application modules that can actually deliver results in an 18-month window – and even faster in certain cases. Moreover, business users and IT are working more closely than before to make decisions together versus selecting packages and defining end-user requirements in a vacuum. Or think about the real cause of IT's need to get closer to the business – CIO marginalization. To this end, CFOs are increasingly looking at IT as a place to reduce costs rather than to drive innovation or internal tech operating efficiency by targeting systems TCO. Taken together, all of these factors point to the rising need for companies to prioritize SRM and P2P investments in today's internal IT climate.

Procurement, for what will be the first time in many organizations, could be a significant beneficiary of this alignment with internal and external needs (not to mention the progress of SAP SRM). Procurement has not been in this position in the past. In many companies, finding a place to hide all of the unused SRM “shelf-ware” – software that was purchased but went unused – was a significant problem. But today, thanks to a number of new capabilities resident in SAP SRM, not to mention the SAP partner ecosystem, the shelf-ware challenge should become a thing of the past. In addition, SAP is presenting a new face to procurement that represents a faster and less expensive option (especially based on total cost) than ever before. From an On-Demand perspective, SAP has finally listened to the market and developed both an internal and partner-based On-Demand ecosystem to drive more rapid results and value (and what often amounts to lower TCO). And from an analytics perspective, SAP can now not only claim to help procurement organizations with transaction efficiency, but overall visibility into spending, strategy development and reporting perspectives as well. In other words, procurement finally has a reason to talk to SAP (versus simply waiting for IT to consummate an arranged marriage).

Getting to the Heart of SRM 7.0

SAP SRM 7.0 represents the culmination of a new major release cycle for SAP that was years in the making. But to get to this point, SAP had to come a long-way. SAP's early releases of SRM

were completely outclassed by competitors including Ariba, Commerce One, Rightworks and others at the time. Between 2001-2003, SRM 1.0 through SRM 3.0 suffered from limited workflow, catalog management and other capabilities that made it very difficult to bring material portions of spend under management. However, by SRM 4.0, SAP had solved many of these challenges and created a product that was competitive on some fronts and sufficient for at least some organizations. SRM 5.0, which came next in 2005, layered on additional capabilities, but was the last major release until May of 2009 when SRM 7.0 exited the ramp-up program (SAP cancelled the SRM 6.0 release after numerous challenges).

Many companies have no doubt heard part of what SRM 7.0 brings to the market for SAP and more important, how it can potentially help them. But we must also examine numerous capabilities that are beneath the surface of SRM 7.0 – some of which are enabled by SAP partners – which address many of the shortcomings of previous releases that drive to the most important usage and adoption metrics (including spend under management, compliance, savings, etc.). Among these are the business benefits that an On-Demand variant of SAP SRM can bring – many of which specifically overcome some of the weaknesses that remain in the traditional behind-the-firewall deployment model.

Indeed, as an installed application, SRM 7.0 only partially addresses some of the concerns of earlier SRM users. These include the challenges of supplier enablement and initial supplier on-boarding. In this regard, there is a reason that companies which use SAP SRM on an installed basis still lag behind Ariba and other best-of-breed providers when it comes to maximizing both the percentage of suppliers enabled and the percentage of spend under management. In addition, the content management capabilities of SAP SRM 7.0 – and SAP MDM in general – provide only a partial solution that, if used alone without other technologies, will also restrict the percentage of spend and suppliers that an organization can actively manage. But SAP has learned some lessons from earlier releases that they have successfully addressed in SRM 7.0. These include the change and process management capabilities of the application along with the ability to more easily address multiple spend types (e.g., services spend categories versus SKU or catalog-based items).

Moreover, SRM 7.0 brings a number of other feature extensions as well. But one of the major hurdles to understanding what actually matters in SRM 7.0 is getting past the SAP marketing-speak. If you were to take the SAP attempt at positioning SRM 7.0 on face value, it's unlikely that the enhancements would sound appealing. To wit, SAP claims that SRM 7.0 creates big improvements in three key areas: procurement excellence, services procurement and foundational investments. But to take this on face value would be to underplay many of the key enhancements of SRM 7.0 (except services procurement which we agree is an important new capability, even if it is functionality limited in direct comparison to best of breed competitors).

Our analysis suggests that what really matters in SRM 7.0 are a number of critical functionality and architectural enhancements that will change how users interact with the system. These include an enhanced portal framework for users to customize and interact with their own view into the purchasing environment. It also includes new workflow usage definition and UI enhancements (including a new work center / workspace). New controls and exception-based management in SRM 7.0 help to enable strong centralized planning and decentralized execution. In addition, plan-driven and operational procurement enhancements help differentiate the product from its indirect spend focused competitors like Ariba while improved contract management, services procurement, sourcing and analytic enhancements push SRM 7.0 closer to parity with market leaders in core areas (albeit with varying degrees of success).

Taken together, these enhancements help bring SRM 7.0 close to the level of alternative products in the market (and in some cases to an equivalent level or beyond). But few companies will ever find themselves in exactly the same migration or upgrade procurement boat. While each situation is unique, there are four general categories into which we can place SRM 7.0 candidates. The first group of potential SRM 7.0 users include customers of best of breed providers such as Ariba using a legacy installed version with an eventual plan to migrate off of or sunset their current investments (which they're most likely paying 18-22% maintenance on). The second group of candidates currently use On-Demand solutions from other providers that may include Ariba, Ketera, Coupa, Global eProcure and a range of others. The third group of candidates, which will probably account for at least 50% of the SAP SRM 7.0 users in the next few years, are those companies using previous versions of SAP SRM (most likely 3.0, 4.0 and 5.0.). And the fourth and final group of candidates comprise those companies actively considering the implementation of any eProcurement or P2P system, including SAP SRM, for the first time.

In each of these company categories, the questions many organizations are grappling with surrounding SRM 7.0 are remarkably similar in an installed environment – both when comparing each situation to others, as well as those faced by companies that considered upgrading or moving to previous SAP SRM releases in the past. One of these challenges is that SAP SRM remains, even in 7.0, a system designed for internal users versus suppliers (this has a number of implications which we will examine in more detail later in this analysis). As an example, the content and catalog management capabilities of SRM 7.0 in MDM remain insufficient when it comes to letting suppliers manage their own information and catalog data – a key requisite to maximizing spend under management.

Moreover, SRM 7.0 requires that users upgrade their core ERP system to specified levels to gain access to a number of key capabilities. But perhaps most important of all, SRM 7.0 still comes up short when it comes to driving significant and rapid ROI when compared with best of breed providers (who can deliver ROI in 6-12 months vs. 18-24+). In addition, SRM 7.0 still lacks many of the key features of more advanced invoice automation and electronic invoice presentment and payment (EIPP) solutions. Fortunately, however, there is a relatively straightforward way to

overcome many of these inherent and remaining challenges in SRM 7.0 in an installed environment. And that's to consider an On-Demand option either as an initial migration or upgrade strategy or as a permanent approach. Many companies find that an On-Demand approach not only overcomes many of the limitations of an installed approach, but also costs significantly less to manage on a total cost basis over a set period of time. *Figure 1*, below, provides an example of the reduced TCO of an On-Demand SRM model as compared with installed e-Procurement. And as we'll explore in more detail in the rest of this analysis, taking an On-Demand approach to SRM 7.0 can help overcome many of the inherent limitations, costs and challenges of working with ERP providers in general in the procurement area.

Figure 1: 5 Year On-Demand vs. On-Premise TCO Calculation for e-Procurement (Source: IBM)

On-Demand	1 st Year	2 nd Year	3 rd Year	4 th Year	5 th Year
Costs (000's)	750	500	500	500	500
Savings (000's)	3330	6670	10000	10000	10000
Cashflow (000's)	2580	6170	9500	9500	9500
Cumulative Cashflow (000's)	2580	8750	18250	27750	37250

On-Premise	1 st Year	2 nd Year	3 rd Year	4 th Year	5 th Year
Costs (000's)	5814	683	683	2308	683
Savings (000's)	500	3330	6670	10000	10000
Cashflow (000's)	(5314)	2647	5987	7692	9317
Cumulative Cashflow (000's)	(5314)	(2667)	3320	11012	20329

SRM On-Demand – An Introduction and Recommended Steps

On-Demand versions of SAP SRM provide virtually all of the same capabilities as the installed option except for the ability to customize and configure the system at a truly granular level. But for some companies, this might turn out to be a strength and not a weakness as the more an organization moves towards a completely customized package, the more likely it is to move away from accepted best practices. Regardless, companies looking at SRM On-Demand can expect a complete solution much along the lines of an installed SRM deployment including the ability to search catalogs, create requisitions, manage approval workflows and order management, receive goods, monitor order status, oversee basic invoicing and approval processes and reconcile invoices on the back-end. In addition, On-Demand users can take advantage of many of the same capabilities that users of other hosted and networked-based solutions already have, including capabilities and services to streamline the supplier enablement process, an online supplier network and connection hub for document exchange and management, holistic content

management capabilities (built around the need for both buyers and suppliers to interact with and take ownership of different types of information), and invoice automation functionality that extends the very basic capabilities of core ERP and SRM components.

Functional advantages of SRM On-Demand aside, procurement and IT organizations should also take into account a number of deployment considerations in their evaluation process to better understand the implications of pursuing behind the firewall or hosted models. These include deployment costs tied to software and hardware including software licenses, database licenses, operating system software, hardware, hardware installation, etc. And they also include costs tied to professional services that an organization would otherwise have to spend such as software installation, configuration/customization, implementation services, supplier on-boarding, catalog formatting, loading, etc. In these calculations, it is essential to consider the time value of money as well as acknowledge that many installed deployment times are measured in years versus months or quarters. In addition, companies need to thoroughly consider all of the costs tied to not just the initial on-boarding and management of suppliers, but recurring supplier management costs as well. These include costs to automate and manage document exchange (e.g., PO, ASN, invoice) once a system is up and running. For a broader list of up-front and ongoing costs associated with SRM deployments, please see *Figure 2*, below.

Figure 2: Selected On-Premise Cost Factors for e-Procurement Systems (e.g., SAP)

Up-Front Cost Considerations	Recurring Cost Considerations
Software license	Software maintenance fees (application)
Database software license	Software maintenance fees (other)
Operating system software	Hardware maintenance
Network and security infrastructure	Software service packs
Servers and other hardware	Software upgrades
Implementation, scaling	Cross-system MDM
Cross-system MDM	IT support
Supplier on-boarding (transactions)	Help-desk support
Supplier on-boarding (catalog content)	Ongoing supplier on-boarding
Supplier integration	Ongoing supplier management
Catalog implementation	Back-end maintenance
Data validation	Catalog management
Initial supplier management/training	Supplier management/training/support

Spend Matters research suggests that On-Demand P2P systems can introduce significant ongoing benefits and savings. In addition to often bringing lower IT overhead and foot dragging (i.e., “you’ll need to wait until next week for that new direct supplier connection”), On-Demand SRM systems also often provide a lower TCO over a longer time frame. They also help deliver a

range of soft-benefits as well, from around-the-clock service and support (for both buyers and suppliers) to putting the burden of catalog and content management onto a third-party rather than making IT or the procurement organization own what is nearly always an extremely time consuming process. But perhaps most important of all, On-Demand approaches nearly always accelerate spend under management as measured by the number of catalogs enabled, number of suppliers, overall percentage of spend capture, overall visibility into and ongoing reporting and analytics. And in the case of SRM 7.0, specifically, organizations can take advantage of the latest SAP technology regardless of which version of SAP ECC that they're running on the back-end (albeit with some limitations around services procurement and contract management). In today's climate of delayed ERP upgrade cycles, this last point represents yet another reason for companies to explore the On-Demand option.

Still, On-Demand approaches to SRM – and P2P in general – do not come without their own set of challenges and considerations. Companies must often reconfigure their own processes to adapt to the customization and configuration limitations of On-Demand providers. And when choosing to work with an On-Demand provider, risk adverse organizations must find a way to become comfortable with delegating responsibility for key strategic supplier management processes to a third party, not to mention agreeing to limit their choice to work with multiple providers in the areas of supplier enablement, content management, search, etc. In other words, going down the On-Demand route requires plunging in both feet and head first with a single key provider rather than hedging bets between multiple options and partners. Some organizations also find that the long-term TCO equation of On-Demand providers can actually be higher than installed software (though in the case of P2P and SRM, this is rare given all of the external supplier management costs in addition to the internal ones). Last – and this limitation is critical in the case of highly complex heterogeneous environments – the On-Demand option will always limit integration capabilities relative to highly customized deployments.

Given both these strengths and limitations of the On-Demand route, what companies are best suited to consider the SAP SRM On-Demand option? One group is obvious – any company considering an SRM deployment should at least investigate the On-Demand option, examining how it can help overcome many of the supplier enablement and adoption hurdles that behind the firewall approaches bring. But a second group of organizations that should consider SAP SRM On-Demand is less obvious. These include SAP customers who are already using SAP SRM today. Spend Matters research suggests that at least one former SAP SRM user, Graham Packaging, was able to significantly increase the levels of spend it was able to bring under management by migrating from an installed to an On-Demand model for many of the reasons discussed in this paper.

Based on this analysis, Spend Matters recommends that:

- All companies considering an SAP SRM 7.0 purchase or upgrade decision should investigate the On-Demand options available to them
- Organizations should determine whether or not they are a good fit for an On-Demand implementation based on a variety of factors including but not limited to organizational and systems structure and complexity
- Both procurement and IT evaluate other options in the market to reconfirm that SRM 7.0 (and On-Demand) is the right decision
- Companies quantify and build a business case examining all of the total cost factors that go into not only an SRM implementation, but the ongoing lifecycle requirements of a solution over a 3-5 year timeframe (for both installed and On-Demand options)

Suggestions For Further Research

Spend Matters recommends engaging either analysts or consultants to better understand whether or not SAP SRM 7.0 is a logical and pragmatic choice given the options available in the market and your own unique situation (as no two are alike – especially in an ERP context). In addition, the Spend Matters website (www.spendmatters.com) has over two dozen articles analyzing SAP SRM and related technologies, features and capabilities in detail. The site is searchable via a search box on the right hand side of the page. Search either for “SAP SRM” or “SAP” to access related research.

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