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RESEARCH NOTE SAP WATCH AUGUST

THE BOTTOM LINE

SAP pulls the plug on TomorrowNow subsidiary; all customers will get forced march to Enterprise Support at 22 percent of the license fee; and Skullcandy to test the waters of Business ByDesign.

TOMORROWNOW: YESTERDAY'S NEWS

SAP finally let the shoe drop. Last month, it officially shuttered its troubled TomorrowNow subsidiary. This wasn't exactly a surprise, although this is an empty gesture that, more than anything else, will punish the unit's customers rather than achieve anything positive for SAP. TomorrowNow was a provider of third party support to Oracle's J.D. Edwards, PeopleSoft, and Siebel customers, at a relatively cheaper price than Oracle charged.

Looking to use it as a wedge to separate Oracle from some of its accounts, SAP acquired the company in 2005. However, last year Oracle accused TomorrowNow staff of illegally stealing intellectual property and sued it and its parent. SAP admitted there had been some wrongdoing, and from then on, the subsidiary was an albatross around the vendor's neck. It was obvious that TomorrowNow's future was imperiled.

Finally on July 21, SAP announced it was going "to wind down operations" at TomorrowNow. It promised the existing 225-plus customers assistance in returning to Oracle support, or to find some other options, whatever those may be. The current chair of TomorrowNow, Mark White, pledged in a statement that this migration will be "without a disruption to their support." That will be a tough promise to keep, as these customers face a potential boost in price. They also will be dealing with people they either don't know, or people they did know and didn't want to do business with.

Nucleus isn't sure why SAP felt it had to close the unit down: it almost certainly won't make the embarrassing and troublesome litigation with Oracle vanish. Any damage to SAP's reputation isn't likely to get worse. Nor does it bode well in general for any existing or potential third-party support provider. This will provide a cautionary tale of what can happen to any company undercutting a big vendor's support arm, and make other potential third party providers skittish. Today, it's the customers of TomorrowNow that are the losers. Ultimately, however, all Oracle customers are at a loss, as they have one less choice in the market for support.

TOPICS

Enterprise Applications
Software as a Service

SAP PUSHES SINGLE SUPPORT PROGRAM

Interestingly, even as it shuts TomorrowNow, SAP is also forcing all its customers into a single Enterprise Support program, which will run at 22 percent of the license costs. Nucleus isn't sure where that number comes from, but it happens to be what Oracle charges, as well. This replaces SAP's existing Standard Support and Premium Support packages. When SAP officially announced Enterprise Support earlier this year, it left it up to existing customers to decide if they wanted to migrate off their existing plans. Now, for some reason, everyone, including new customers and existing ones, must standardize on it.

As SAP points out, in its favor, Enterprise Support includes round the clock service-level agreements, continuous quality checks, and enhancement and support packages. To further cushion the blow, SAP will make the migration incremental, with a three-year horizon starting in January 2009. The price will steadily increase so that customers can better digest it and learn to live with it.

One consultant who specializes in SAP installations predicted customers generally weren't going to like this forced march. In fact, noted Mike Kerrigan, vice president of Laurus Technologies, it appears that SAP is raising its prices for the simple reason that Oracle already charges that amount and they figure they can get away with it, too. Laurus is a third-party applications integrator based in Chicago. However, Kerrigan predicted there will be two buckets of customers.

Those companies that constantly want innovation and a steady stream of technical enhancements will probably be slightly more comfortable with the new scheme. These customers want the research and development efforts from SAP and need the enhanced support to implement it. On the other hand, there will be other companies that are slower to upgrade and just want stability, and don't need much support. They'll be harder to convince this is good.

Nucleus largely agrees. Paying an annual 22 percent of a multi million-dollar software license can get expensive fast. That's going to seem especially pricey if the customer might only use support once or twice a year or doesn't like what they get.

MID-SIZED MANUFACTURER DEPLOYS BUSINESS BYDESIGN

Although SAP's hosted set of integrated ERP and CRM applications, Business ByDesign, has been plagued by setbacks, a small company in Utah has decided to deploy it. Skullcandy, which makes audio gear, is retiring its existing Excel and QuickBooks based processes in favor of SAP. According to Beth Siron, the head of the ERP project at Skullcandy, the rich features, ease of use, low cost of deployment and support, and quick deployment makes the service a "steal." While the project doesn't wrap until September, this is exactly the sort of reference customer SAP needs to build credibility in both the software-as-service (saas) and small- to mid-sized markets. For more on this, please read *i87 – Skullcandy goes with Business ByDesign*.

SAP PARTNER SNAPSHOT: CAST IRON SYSTEMS

Along with training, integration is one of the toughest parts of implementing and maintaining an ERP system, SAP's in particular. Using SAP's NetWeaver middleware platform and in house developers to craft application programming

interfaces (APIs) can cost a company hundreds of thousands of dollars. On the other hand, customers can integrate processes and applications by deploying one of a family of integration devices from Cast Iron Systems. Customers can install the device in house or have it hosted for them to link SAP to other applications out of the box. Cast Iron has just released the iA4000 series of devices, which makes it easier to connect on-demand applications together, as well as to in house applications. At a starting price of \$1,500 a month for a one-to-one integration, customers can realize a high return, retire legacy systems, and improve IT productivity. This is a no brainer for customers to consider before they start writing checks to build expensive, easily broken, and hard to maintain APIs.

SAP ANNOUNCEMENTS

- Last month, SAP announced BusinessObjects Edge 3.0, a business intelligence platform for midsize companies. It also announced Crystal Reports Server 2008, a streamlined version of its enterprise Crystal Reports platform, also for mid-market companies.

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