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**Müller, O., vom Brocke, J., von Alm, T., & Uhl, A. (2012). The Evolution of SAP Services. *360° - The Business Transformation Journal*, 1(3), 48-56.**

The final publication is available at

<https://www.bta-online.com/what-we-do/360-journal/previous-issues/journal-issue-3/>

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## Abstract

The software industry has changed significantly over the last two decades. Especially in the enterprise software market, the role of software-related services is becoming more and more important. In this case study we investigate how SAP Services, the services arm of SAP, senses and reacts to changing customer needs and reinvents the market for software-related services. A radical overhaul of SAP's service portfolio and new service delivery models are at the heart of the current transformation initiative. From a change management perspective, the proactive involvement of key customers and employees from the field proved to be important enablers for change. Yet, the company also faced some challenges, such as changing its consulting culture and convincing key business partners to follow the new strategy.



# THE EVOLUTION OF SAP SERVICES

SAP Services is constantly transforming its business model to meet the ever changing customer demands in the IT services industry. This case study charts the evolution of SAP Services and highlights how the company manages to actively drive change on a global scale.

by Oliver Müller, Jan vom Brocke, Thomas von Alm and Axel Uhl

The software industry has changed significantly in the last two decades. In relative terms, traditional product revenue has declined, while services revenue is on the rise. In 1990, software firms generated about 70% of their revenue from products and the remaining 30% from software-related services. Since then, the revenue share of products has decreased steadily (see fig. 1), and in 2003, services sales crossed over to exceed product sales. The growing importance of services is especially apparent in the enterprise software market.

Against this background, the Business Transformation Academy (BTA) and the University of Liechtenstein initiated a joint research project to investigate how the service portfolio at SAP has evolved and is still evolving. Over a six-month period in mid-2011, we conducted interviews with executives of SAP Services, the services arm of SAP, as well as IT managers of two of SAP's major customers. This article presents selected findings of this study.

## SAP Services' Business Model

Our first aim was to gain a better understanding of SAP's motivation for offering software-related services. In the software business, the margin of services (typically 20% or less) is much lower than the margin of software products (up to 99%), given that the marginal costs are nearly zero to copy a piece of software. Hence, in theory, it is advisable to put

a strong focus on the software side of the business. However, the reality is that SAP's solutions fulfill complex customer needs and require substantial effort and specialized knowledge to set up, customize, and integrate. As it is not economically reasonable for most customers to build up the required skills and resources, there exists an enormous demand for software-related services. On the other hand, "that does not necessarily mean that SAP has to perform this job", as one SAP executive explained. "Today, there are many companies in the market that can offer SAP implementation services. So we can basically decide how much software-related services we want to offer and how much we want to offer in cooperation with our ecosystem partners." In this context, it is worth noting that the business model of SAP Services differs fundamentally from that of the pure-play service providers (see fig. 2). The goal, for example, of a typical standalone consultancy is to generate revenues from service projects through tailoring and adapting solutions to customer require-

Fig. 1: Crisscross of product and service revenue in the software industry (source: Cusumano 2008)

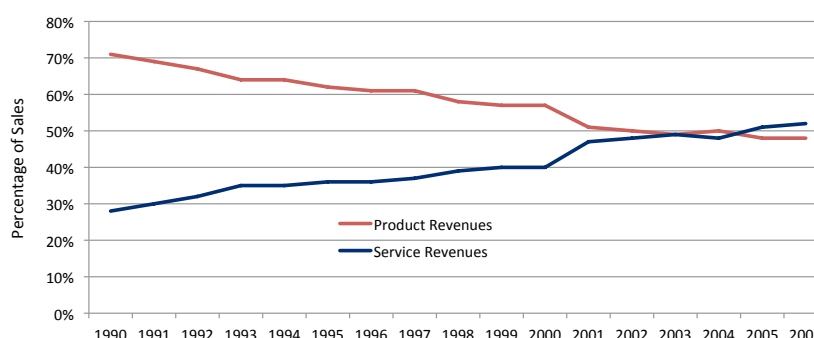






Fig. 2: SAP Services fact sheet

ments. The software products are nothing more than a side note. In contrast, SAP Services – as a subsidiary of a product company – seeks to act as a catalyst for the adoption of SAP’s products, for example, by promoting innovations in the market or facilitating the implementation and use of existing software solutions.

**Charting the Evolution**

To better understand the evolution and ongoing transformation of SAP Services, we took a look back at its recent history and identified a three-phased evolution (see fig. 3).

SAP Services started out with an experts-on-demand business model. Its value proposition was based on providing consultants with specialized technical skills and extensive SAP know-how for projects managed either by third-party service providers or by clients themselves. Two market trends induced SAP Services to depart from this model as its primary source of revenue. First, due to global competition and technological innovation, SAP Services’ capabilities and offerings were subject to an increasing commoditization. According to a global services manager, “many of the traditional services we provided in the past are recognized as commodities today”. Second, as IT became more and more essential to the business of most companies, clients increasingly demanded

that SAP, as the original software manufacturer, takes full accountability for the successful implementation of its solutions.

The changing customer requirements marked a turning point. Soon after, SAP Services began to grow its involvement in end-to-end projects. Compared to the experts-on-demand business, this model resulted in longer-term engagements with clients, giving SAP Services stronger levers to ensure high-value and low-risk implementations for them. Internally, it allowed SAP Services to leverage economies of scale through the set-up of dedicated organizational structures, the build-up of specialized capabilities, the facilitation of learning and knowledge transfer, and the application of resources across geographies and markets. Yet, with the transition to the project business, SAP Services suddenly found itself in direct competition with the many IT consultancies that have specialized in enterprise software implementation projects. Following their rationale, SAP Services tried to win projects by demonstrating how its software solutions can be customized and adapted to best fit the individual needs of a client.

Sensing new developments in customer expectations, the company decided to further transform its business model to be able to climb to the next rung on the evolutionary ladder. This step included

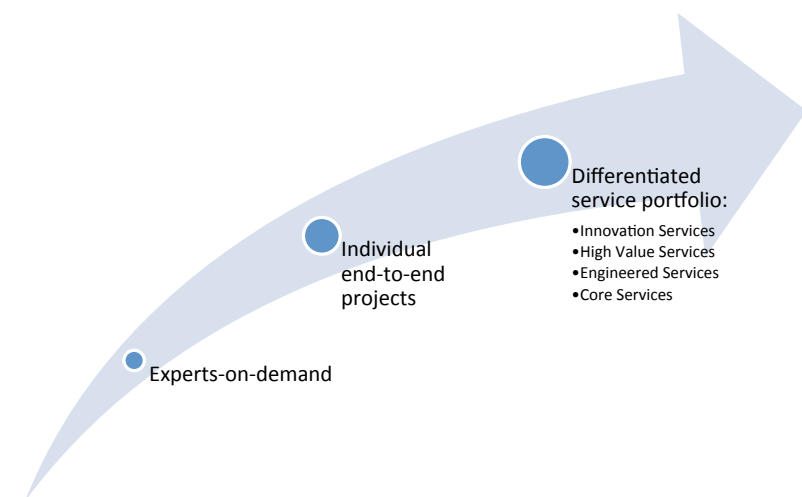
a refinement of the value proposition of SAP Services towards a differentiated service portfolio. Extensive tailoring of solutions and projects is not necessarily in line with the interests of both customers and SAP itself. Today, the majority of the costs of an enterprise software project are not determined by the price of software licenses, but by the total cost of implementing a solution. As one SAP executive pointed out, “for every dollar you spend on software licensing, you have to spend another five dollars for implementation services”. While this situation is actually beneficial for pure consultancies, it represents a drag on the core business of any company making and selling software. One of the interviewees made it clear that “the best way to strengthen SAP’s position in the competition is to drive down the total cost of implementation”. This is especially true in times of increased competition from less service-intensive, on-demand solutions, such as the competitor, Salesforce.com.

### Listening to the Voice of the Customer

After gaining a comprehensive picture of SAP’s transformation journey, we continued to collect opinions of two of the company’s major customers, Hilti and Zurich Financial Services. We were first interested in learning how – from their perspective as customers – the overall enterprise software market changed during the last decade. Both interviewees named the increasing modularization of traditional enterprise applications, for example, Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM), and the emergence of software-as-a-service solutions as the most significant changes over the last few years.

These developments in the software market have interesting effects on IT project management. Both companies are trying to turn to smaller, more focused projects, and it seems that these projects are increasingly managed in-house and not by external consultancies. One IT executive of Zurich described the

staffing of future IT projects as follows: “I shop a few experts on the risk modeling platform, I shop a few experts on the data management, I shop a few experts on the integration, and I integrate them into an overall project governed by in-house program management”. Likewise, there is a clear trend towards more standardization in back-office functions. One of the interviewees even brought up the metaphor of an “app store” for downloading and deploying standard business processes such as payroll processing or e-procurement: “I know that such standard processes are never 100% perfect for me because they are not individually programmed for me, but it would be great if I could choose between two or three



different flavors and I just go for the one that I think best fits my requirements.” We proceeded to discuss how the customers perceive SAP Services. What would they consider the core competencies and unique value propositions of SAP Services? How has the company changed over the last few years? Again, both customers were generally unanimous in their opinions. One of the interviewed managers described SAP’s journey as follows: “SAP developed into a company that is able to provide professional services. That was not the case 10 years ago. Back then, they had only very few people and were more like software engineers than consultants.” In regards to core competencies, the customers

Fig. 3: Evolution of SAP Services

perceive SAP Services as highly specialized experts for SAP-related technology. “When a problem gets really difficult, when we need something really innovative and challenging, then we turn to SAP Services”, one interviewee concluded. On the other hand, according to the interviewees, SAP Services still has potential to increase its reputation for expertise in more business-related issues. In their opinion, the key for SAP Services to provide real business value is in extracting and leveraging knowledge from SAP’s huge customer base. Both interviewees expressed great interest in learning from the best practices of their peers and also from developments in other, more innovative industries. “SAP provides cutting-edge solutions to hundreds of customers from virtually all industries. This makes them unique compared to other consultancies. I think it would be a low-hanging fruit for SAP to better exploit this knowledge”, one interviewee summarized.

### Reaching the Next Level

After having understood the history of SAP Services and collecting feedback from key customers, we continued with a detailed analysis of SAP Services’ current transformation efforts. How does the company react to the changing customer requirements? What is SAP’s answer to today’s highly focused projects and the demand for faster time-to-value and reduced total cost of ownership? How can SAP Services position itself as a partner with sophisticated business know-how? And how is SAP managing the transformation process?

Although SAP’s transformation did not have a clear-cut beginning, the process received a substantial push through the appointment of new leaders both at a corporate SAP level and at SAP Services. Following an update and sharpening of the overall SAP corporate strategy, the new President of Services, José Duarte, articulated a vision for the ongoing, evolutionary transformation efforts of SAP Services: “Move from being relevant to being essential.” The goal of SAP Ser-

vices, perceived as being a big but not necessarily unique player in the market, is to become an indispensable partner for two constituencies: SAP’s customers and the overall SAP group. In specific terms, “being essential means to differentiate from other service providers in delivering solutions that you will not get somewhere else”, as one interviewee explained.

As a logical consequence of the changing customer requirements, a complete overhaul of the service portfolio was at the heart of the transformation. In a series of workshops and off-site leadership meetings, four distinct service categories were defined (see also Table 1):

- Innovation services are related to SAP’s latest technological developments and solutions, for example, In-Memory, Mobility, and Analytics. As the ecosystem partners have not yet built up capacities for these brand-new innovations, customers perceive SAP Services as being the only one who is able to deliver these solutions. From the perspective of the product business, SAP Services acts as a market maker in these areas.
- The area of high-value services comprises value propositions that are unique in the market in the medium to long term because they involve rare SAP-specific resources. These highly people-centric services are provided by individuals with specialized knowledge and expertise, such as planning SAP-centric IT strategies and system landscapes, industry-specific business process consulting, and custom development.
- Engineered services deliver results that are also offered by other providers but involve less time, cost, and risk. This is intended to be achieved through applying the principles of industrialization, that is, engineered services are standardized in scope, involve predefined technical content, leverage remote delivery capabilities, and are highly repeatable. They act as facilitators for the implementa-

Service Category	Description	Examples
<b>Innovation Services</b>	Delivered in a market-maker capacity, they ensure SAP remains in the first-mover role with SAP innovations by adopting new technologies.	- Mobility - HANA/In Memory - Cloud
<b>High-Value Services</b>	These help differentiate SAP Services with unique, people-centric services that deliver tangible mid-term and long-term value for customers.	- Platinum Consultants - Business Transformation Services - Performance Insights & Optimization - Custom Development
<b>Engineered Services</b>	These assemble-to-order services focus on higher efficiency providing quality through reuse, specialization, and built-in scalability, and are designed to reduce the services-to-software ratio for customers.	- Focused Business Solutions - SAP Rapid Deployment Solutions - IT Transformation Services - SAP MaxAttention & Safeguarding

tion of SAP's software products. Due to their industrialized form, however, these services are only unique in the short to medium term, and competitors will surely start reusing this model.

- The category of core services comprises the more traditional software implementation projects, for example, ERP implementation. In this area, SAP does not necessarily offer uniqueness in comparison to the value propositions of other players, and customers perceive SAP Services as one of many service providers. Here, SAP is especially in competition with large pure-play IT consultancies. Nonetheless, the traditional implementation services are still in high demand in specific market segments, for example, among customers in fast-growing regions like Brazil or India.

According to the predicted future customer demands, SAP's investments will focus on the first three of these service categories, whereas efforts in the area of core services will be relatively scaled down. It is envisioned that in 5 years' time, roughly a quarter of revenue will be generated by engineered services, and major parts of the remaining share by innovation and high-value services. A significant share of the core services will be provided in cooperation with partners.

The following, deliberately exaggerated statement from a regional manager depicts this strategy: "If SAP's ecosystem takes on 100% of the traditional implementation projects, it would actually be a brilliant outcome of the transformation. Yet there will always be customers who want us, as the software vendor, to take responsibility for a project."

### Important Change Agents

A key lever for achieving the defined objectives was to introduce a new delivery model that consisted of three tiers: local, near-shore, and off-shore. Within each of these levels, there are consultants who can work on site, potentially involving extensive travelling activities, or remotely, using advanced communication and collaboration technologies, like the telephone, Web, and video conferencing. One of the interviewees described SAP's ambitious goals in transforming its delivery capabilities as follows: "Currently, almost 90% of our services are provided at the customer's site, while only a small portion is delivered from remote sites. We want to come to a more balanced distribution in the future." One of the next steps will be to identify appropriate prescriptive delivery models for each service offering. The idea is that customers do not have to worry about modes of delivery and instead can focus completely on the outcomes of a service.

*Table 1: New service categories*

However, the interviews also revealed that there is still a lot of work to do in this area, for instance, building up the right resources for these new delivery models and increasing acceptance among sales executives and customers. One regional manager concluded: “That will be part of the transformation in the coming years.” Another important enabler for professionalizing delivery capabilities is to enhance the deployability of software, a good example of which is SAP’s new rapid deployment solutions. These packages combine software with essential functionality, predefined configurations, and best practice business content with fixed-scope implementation services at a predictable price and delivery date. One of the regional heads said: “With this mass customization approach, SAP promises to deliver a running 80% solution in a couple of weeks, instead of a 99% solution in several months or even years. Most customers like this idea because they can still decide to improve the solution to more than 80% requirements coverage once it is up and running.” These are just a few examples of the transformation areas and goals. As one can imagine, organizing change activities in a global, established, and very successful organization of 18,000 professionals is not an easy task. The decision was made to install transformation managers in all dimensions of SAP Services’ organization, that is, business areas, for example, Consulting, Custom Development, Education, geographies,

that is, Asia Pacific and Japan, EMEA, Latin America, and North America, and functions, for example, Portfolio Management, Sales, Delivery, HR, Finance. These change agents, enjoying the support of a global transformation management function, are located right in the field, within the local teams. This choice was considered indispensable in avoiding resistance to a transformation program designed outside of the business. As one manager from the global transformation team summed it up: “We strongly believe that the transformation has to be led by the business units in the field. Global functions, like transformation management, are important facilitators, but they cannot execute a transformation alone. Ultimately, the transformation needs to happen in the field, in our customer engagements. Otherwise, it’s just talk.”

In line with this thinking, SAP is also in a conscious dialogue with its customer base to ensure that the transformation efforts are in line with their needs and expectations. In particular, SAP set up a customer advisory board comprising about 25 clients who, together, represent roughly 10% of SAP Services’ revenues. The direction and current state of the transformation process is presented to this panel in intervals of six months. As the interviews with both SAP managers and customers revealed, the feedback and recommendations of the customer advisory board have been absolutely essential in steering the transformation. The head of SAP Services EMEA even went so far as to state that “we actually worked out the repositioning together with the customers”.

### Key Learnings

- ▷ Make the transformation transparent: Highlight to employees what will remain stable and what will change over the course of the transformation journey.
- ▷ Involve employees and key customers: Transforming an organization against the interests of these stakeholders is impossible.
- ▷ Make sure to reach your financial targets while transforming: The better the business performance, the more bandwidth for transformation.

### Challenges Along the Way

Unsurprisingly, the transformation team also faced a number of challenges. A recurring central theme in several interviews was the concern about changing SAP’s consulting culture, that is, the mind-sets, practices, and routines of service professionals. In the experts-on-demand and tailor-made-projects



businesses, architects and consultants were used to solve customer problems by developing and implementing individual, and sometimes even unique solutions. One of the interviewees compared this job to “creating your own piece of art – which our employees love”. While creative problem-solving skills are still essential for innovation and high-value services, consultants in the engineered services model are expected to deliver the same or similar results over and over again. Intellectually, this is not very challenging. On the other hand, the standardization and repeatability frees up resources to do things other than merely installing technical solutions, and, most importantly, to deal with the business problems of the client. Convincing the workforce to take an active part in this shift in focus will certainly be one of the major challenges of the current transformation activities.

Another equally demanding task is to convince SAP’s ecosystem to follow the new strategic direction. As previously outlined, the ecosystem partners do not currently see the benefit of reducing the software-to-service cost ratio of SAP’s business solutions. As SAP Services is handling only 10–15% of the worldwide SAP implementations, however, it is crucial to get the ecosystem on board. Otherwise, “SAP’s efforts will just be a drop in the ocean”, as one regional manager depicted. Hence, SAP’s plans in the area of engineered services are to train and certify ecosystem partners, license out intellectual property, and co-develop service offerings with special expertise partners. SAP is confident that, in the future, this will be a source of revenue of its own. The company is facing a similar situation in the area of innovation services. External service providers are reluctant to develop service offerings for disruptive innovations like In-Memory or Virtualization. They would rather wait and see until a critical mass of customers is adopting a new technology before investing. One regional executive characterized the situations as follows: “Parts of the eco-

system have become risk-averse. They make billions of dollars on the back of SAP without taking risks, without driving innovation.”

### ACKNOWLEDGMENTS

The authors would like to thank the following people for sharing their thoughts and experiences:

- Ross Wainwright (Executive Vice President of Services for North America, SAP)
- Mark From-Poulsen (Executive Vice President of Services for EMEA, SAP)
- Holger Lemanczyk (Head of Services Business Transformation, SAP)
- Nicolas Schobinger (Head of Services Strategy and Business Development, SAP)
- Dr. Martin Petry (Chief Information Officer, Hilti Corporation)
- Andreas Schönherr (Head of Global Finance Solutions, Zurich Financial Services)

### First Success Stories

SAP Services is still in the middle of the transformation, so it is still too early to draw reliable conclusions from our study. Nevertheless, first success stories can be told. Early customers of engineered services implementations report dramatically shortened implementation times, for example, about 12 weeks for a clearly scoped CRM solution. In North America and other regions, the customer demand for some innovation and high-value services is exceeding available capacity. Here, SAP urgently needs to invest in human resources to keep up with the growing market.

Analyzing the interviews, we were able to identify some critical success factors that were crucial in reaching the current state. Three aspects were repeatedly mentioned. First, make the transformation transparent; allow employees to connect the dots by explaining what remains stable and highlighting what will significantly change over the course of the transformation journey. Second, involve customers and business partners; transforming against the direction of market trends is impossible. Third, try to

reach your revenue and profit goals while transforming; “When you’re not paying your bills, transformation is almost impossible. The better our financial performance, the more bandwidth we will have for transformation”, one of the regional heads subsumed.

This article presented an overview and some preliminary findings of our case

study on the transformation of SAP Services. It tells only a fraction of the whole story, however, and as the transformation journey of SAP Services is not over yet, our case study will also go on. It will be interesting to see how the enterprise software market in general, and SAP Services in particular, will evolve over the coming years.

## Service

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# “Walking the Talk”: Difficult but Essential

## A Comment on the SAP Services Case by Robert Winter

“The Evolution of SAP Services” case study shows how SAP Services plans to address the software industry’s transformation challenge of shifting from (software) goods-dominant logic to service-dominant logic. For the services unit of a world leader in its domain of enterprise software, this transformation challenge is significant and might provide many insights even far beyond the software industry.

Comparing the presented sketch of new or extended service offering types (innovation services, high-value services, and engineered services) or reduced service offering types (core services), their desired revenue contributions, and their respective ecosystems to SAP Services’ past and present gives an idea of the extent of the ongoing evolution. Transformations of this extent need to be planned, implemented, and controlled with regard to all direction and enablement dimensions that Business Transformation Management Method (BTM<sup>2</sup>) comprises. While the case study summarizes some outcomes of strategy management tasks, including need analysis, business vision design, and business model design, many links to other transformation functions and dimensions become apparent. As a consequence, SAP Services needs to “walk the talk”, that is, to apply its own BTM<sup>2</sup> approach to maintain transparency and ensure a systematic process.

In addition to a systematic, transparent “change engineering” approach, the case study points to “maintain profitability while transforming” and customer involvement as transformation success factors. While the former can be associated with the value management dimension of BTM<sup>2</sup>, customer involvement is “hidden” in many, if not most, BTM<sup>2</sup> transformation activities. Even if not explicitly mentioned, an “outside-in” perspective is key to successful transformation, and it should include not only the “usual suspects”, that is, existing large customers, but also stakeholder groups such as financial analysts or union representatives.

It is clear that transformations of this extent also need to incorporate a large-scale evolution of not only skills but also leadership and often mindset (in this case service-dominant logic instead of goods-dominant logic), to mention just a few “soft” factors. BTM<sup>2</sup> has a competence and training perspective that addresses skills, while culture, mindset, and leadership are part of “meta-management”. With growing certainty about how to capture the transformation-specific aspects of such “soft” factors, I expect additional perspectives to be added to BTM<sup>2</sup> in the future.

Furthermore, greater emphasis could and should be given to patterns. Are all geographical and product markets similar with regard to the intended shift toward service-dominant logic? And if not, which configurations exist? Are all service offerings similar with regard to the required competencies, and which product or service components can be reused?

Many of these questions might already have been answered and could provide valuable insights for the BTM<sup>2</sup> community. I would love to learn more and see how “the talk is walked” so that not only SAP but also BTM<sup>2</sup> customers will benefit.

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