

## We Do it Themselves

Outsourcing SAP Applications Support

“One comment that has been repeated to me by clients over the years in regard to IT projects: “We’re in [fill in the blank] business, not the IT business.” They are expressing their desire to return to core business activities and get out from under the details of information technology maintenance.”

**Doane Associates**  
SAP Strategic Consulting & Advisory

# We Do It Themselves: Outsourcing SAP Applications Support

## Applications Are What We Do

EARLY IN THE MILLENNIUM, while working as an industry analyst at META Group, I was asked by a number of clients what service providers could help them to plan and build an SAP center of excellence. To get a handle on these requests, I contacted SAP leaders at all of the usual suspects (Accenture, Deloitte, IBM, BearingPoint, and CapGemini) as well as a number of second tier firms. All initially assured me that they provided such a service but all hedged dramatically when pressed for a methodology, references, and costing. Instead I was invariably ushered into a meeting with the head of a nascent applications outsourcing practice where I was assured that applications outsourcing was the wave of the future. This led me to write a brief article entitled “Option A or Option A: Funneling Clients to Application Management.”

Thwarted in my attempt to find firms that could build SAP centers of excellence, I turned my attention back to clients to see how interested they’d be in outsourcing their applications.

During a presentation on post-implementation SAP strategies to a group of META Group clients in Chicago, I was asked again if service providers had a methodology and service offering for helping build SAP centers of excellence. No, I replied, but they would offer to take over the applications in an outsourcing environment. To gauge audience interest I asked for a show of hands of those who would consider outsourcing the management of their SAP applications. No hands were raised but many voices were heard. Whatever SAP cred I had earned to that point in the presentation was largely lost as both my wisdom and sanity were questioned. I especially remember a VP of IT laughing loudly and remarking, “Applications are what we do.”

About a year later, we did some primary research that indicated fully 41% of respondents would not even consider outsourcing their applications. This part of our research was a standard “adoption scale” in which respondents told us in what time-frame they might consider adopting a given technology or service. We had never seen a result of “will not consider” higher than 20%.

While resistance is still extant, service providers continue to offer application outsourcing, which is called by various names: application maintenance outsourcing (AMO), application management

outsourcing (also AMO), or application management services (AMS). Behold, another confusing set of three letter acronyms.

In more recent years, client acceptance of the service has risen as the notion of “applications are what we do” has morphed into “why are we maintaining these applications ourselves?”

Service provider quality remains mixed, primarily because too many of the service providers have poor or unproven delivery models. I have often referred to such providers as “accidental outsourcers” in that they tend to inherit maintenance from implementing clients who do not feel apt to maintain their SAP after go-live. “Accidental outsourcers” tend to make it up as they go and should be avoided.

If you have not considered outsourcing your applications, this document should challenge you to do so. If you are already considering outsourcing your applications, this document should provide you a roadmap.

For the sake of clarity, I will be addressing two levels of application outsourcing:

**Application Maintenance:** end user help desk, basic applications hosting/operations, break/fix, debug, backup, etc. (Keeping the lights on)

**Application Management:** maintenance functions (above) plus a level of application improvement, upgrade, and/or business process transformation. (Expanding the span of light).

For the latter, there are various levels of management:

- Functional application enhancement as needed to assure basic *continuity*
- Frequent application enhancements to provide some *optimization*
- Defined levels/stages of business process *transformation*

The difference between optimization and transformation is enormous. In optimization mode, you are improving the as-is state of your applications. In transformation, you are moving to another to-be state. Optimization is like tuning your car; transformation is like getting a new a whole new car.

When people say “applications are what we do”, they are thinking more about optimization and transformation than about continuity. In this regard, a key misconception regarding the outsourcing of applications support is that clients are “giving it up” when in point of fact they may be giving up redundant, low-level, non-strategic labor while still keeping both hands on the applications steering wheel. There is still a capital W to the We do it themselves proposition.

## Why on Earth Would We Outsource our Applications Support?

The key value statements offered by a plethora of application outsourcers usually center upon a) economy and b) superior SAP skills.

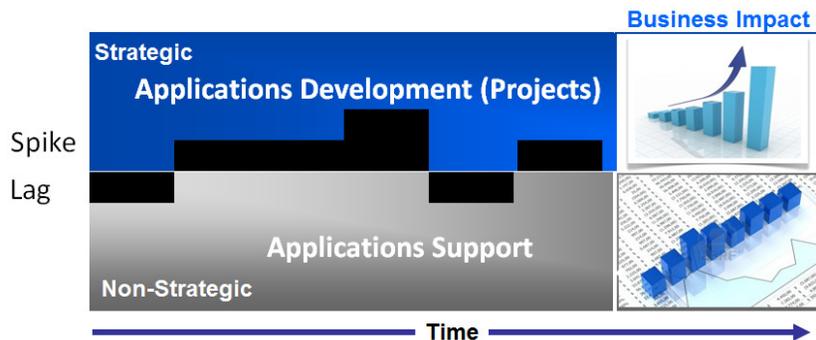
Whatever the veracity of these statements, it is probable that you are looking for something else. Perhaps the cost of maintaining your SAP applications is acceptable but not predictable due to occasional spikes in demand. Perhaps your internal SAP staff is competent but you are chronically short of some key skills. Below are some of the key advantages and disadvantages to SAP application outsourcing.

Outsourced Application Management		Client Staff (In-House)	
Advantage	Disadvantage	Advantage	Disadvantage
Steeped in method and consulting skills	No direct stake in operational success (unless contractually)	Direct stake in operational success	Less knowledge of method and consulting skills
Costs may be shared across multiple clients on an as-needed or as-used basis.	May lack single client focus.	Single client focus is assured.	Costs are not flexed according to usage.
Deeper product experience			Shallow product experience
Better exposure to industry best practices	Not deeply oriented to client business context and organization	Fully oriented to client business context and organization	Less exposure to industry best practices.
	May not have the capacity/skills to manage a mix of enterprise and legacy apps.	Greater experience with legacy applications.	
Deeper knowledge of business process design.			Shallow knowledge of business process design

This on the one hand but on the other hand stuff can lead to circular debates so you might want to weight the relative importance of each of the variables. Taking them one at a time:

If your in-house staff is chronically weak at methodology and people skills, outside resource may be a boon. As for a direct stake in operational success, your in-house people have face time that an outside provider will not. Having said that, with good governance, you can be sure that your provider will have a stake in your success.

One major advantage to outsourcing of applications, especially in an on-demand environment, is the economy of resource coupled with predictability of service. Many firms assign in-house SAP staff to support roles and project roles on a 50%-50% basis only to find this type of scenario occurs:



Applications support is a little bit like ER and SAP installations have their “full moons” so the predictability of support demand is compromised as well as staff availability for projects.

On the subject of product experience (relative to SAP), service providers do not *always* have more depth. A client of mine once complained that a potential provider claimed five plus years of SAP experience on average. “We’ve had SAP for ten years,” she told me, “and most of my staff is still with me.”

If your SAP applications are heavily customized and/or heavily interfaced with other applications, this uniqueness will hamper your ability to outsource more than one or two support levels (see following).

If you are contracting for applications management, business process skills come into play. While in-house staff knows your business process better than outsiders, the outsiders will normally have greater knowledge of the best business processes due to greater client exposure. Outsiders may also have better insight as to how you link business performance metrics to business processes.

From direct experience and through primary research, these are the three reasons that are most often cited for outsourcing SAP applications support:

1. Bridge a skills/expertise gap
2. Provide more predictable cost and business response.
3. Free up staff from banal maintenance to concentrate upon more strategic issues

Reasons 1 and 2 are fairly obvious. Reason 3 goes deeper than it looks.

After the first great wave of SAP implementations crashed on the post-Y2K shore, there was a glut of underemployed SAP consultants across the United States and many found refuge by returning to industry in a maintenance role. For most of these people, boredom quickly set in. Without the adrenalin of project-based work –the challenges, the deadlines, the pressing need to constantly upgrade their skills- they found themselves turning into clock watchers and could not wait for the market to pick up so they could head back out into the field.

There are similar effects for in-house staff if the day-to-day work is a) maintaining interfaces, b) de-bugging, and c) responding to user queries. What we see is a split of duties between exciting new stuff (a small percentage) and boring daily maintenance (a large percentage). While the notion of “applications is what we do” has its merits, I think what we mean is closer to “improving and expanding applications is what we want to do”. Without “at hand” outside help, As-Is has a persistent way of trumping To-Be.

## Application Outsourcing Adoption

In this section, we will explore ways to assess your organizational readiness to outsource your applications to some level (either maintenance or management). While such an assessment may well point to your lack of readiness, it should also provide a diagnostic as to how you can be ready.

Below is an adoption model from your internal organizational alignment to execution of the service:

SAP Application Outsourcing Adoption Model				
Level	State of Applications	Environment/Risk Change Management	End Users & Supports	Skills
1 Aligned	Applications to be outsourced are fully implemented and required interfacing is complete	Determination of specific applications under consideration and applications not to be outsourced	End users and super users are identified	Identification of specific skills sets associated with applications is complete
2 Assessed	Have acceptable levels of a) customization and b) quality, nature, & volume of interfacing	Goals & objectives of application outsourcing are established and measured	Help desk traffic and end user competency have been assessed	Determination of cost of skills associated with specific application(s) (e.g. professional development, training, retention, recruiting)
3 Planned	Final determination of the level of outsourcing to be contracted has been agreed	Vendor governance relative to business process change (and consequent change management) is in place	Super user input regarding planned services has been provided	Identification and selection of potential governance team has been made
4 Selected	Blueprint of applications management roles and processes is complete	Outsourcing staff are vetted, contract & due diligence are complete, and transition plan is in place.	Super users agree with vendor selection and transition plan	Governance team and transitioning staff have met with chosen provider
5 Executed	Application migration to service provider commences, provider assumes responsibility for application deployment, availability and management	Contract signed, transition plan begins, risk mitigation processes exercised, employee transition occurs	Application support requests are successfully routed, logged, and addressed	Transition, retention, outplacement, and retooling are complete

For each of the five stages of adoption, there are four key focus categories:

**State of Applications:** how reasonable is it to presume that outsiders can maintain your applications? If they are extremely unique (i.e. highly customized, heavily interfaced) or in disarray, handover will be compromised.

**Environment/Risk/Change Management:** careful targeting of applications to be outsourced and how that outsourcing should occur are at the heart of outsourcing success. Particular attention should be given to planning forward governance of the to-be-chosen vendor.

**End Users & Supports:** the key constituents of outsourced application maintenance are the users. Therefore, preparing them and including them in outsource planning is highly recommended.

**Skills:** this category of activity is a combination of a) assessing what skills must be retained in-house for strategic activities and what skills are needed from an outsourcing vendor and b) preparation of individuals to effectively perform vendor governance.

The five **levels of adoption** do not have to be completed sequentially but an agreed-upon point of closure for each level should be met.

### Aligned

Clients attain this level only if the key constituents (business stakeholders, SAP support team, and the user community) are on the same page. Firms need to address why they should consider outsourcing, candidate functions or areas to be outsourced, and the desired results to be achieved through outsourcing. High level business case formulation, risk assessment and goal formulation are at the core of this level.

### Assessed

Completion of this level is categorized through base case assessment of capabilities/functions in consideration for outsourcing. These assessments examine current base costs and projected future costs of providing these services internally. Factors to consider include: uniqueness of the function to the business (current and projected); skills retention and development (current and projected); comparison (benchmark) to current market offerings.

### Defined

The defined phase begins with the selection of specific functions to outsource and continues through business case development, risk assessment and mitigation planning, service provider identification, and bid process development. Expectations are level-set regarding original intentions and objectives for outsourcing. Internal sourcing team & governance teams are established.

## Selected

This level is completed when the vendor selection is completed. The sourcing team has reviewed competitive bids, compared to base case and scenario planning conducted in assessment and planning phases, vendors have completed due diligence surrounding the function to be outsourced, the client has received a best and final offer. Vendors are evaluated on: Competitiveness (to each other and market prices established during assessment phase), responsiveness, manageability, and adaptability.

## Executed

This phase is characterized by the establishment and implementation of governance policies, procedures, processes and controls as part of contractual execution (formal conclusion of the deal). To satisfactorily complete this level, a client should establish an initial service level agreement (and language affording modification), definition of services to be provided (including line item pricing), benchmarking clauses and timelines, change, problem, incident, and escalation management procedures.

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What you do not want to do is what a depressingly high percentage of clients do: make it up as you go. Even worse is simply deciding to outsource and immediately searching for a provider. Following a reasonable adoption model may well lead you to conclude that it is not feasible or desirable to outsource your applications support. Following a random adoption model will certainly lead to future problems managing your provider or lead you to drop the idea altogether, whatever its merits.

## Crossing the Bridge from Maintenance to Management

Many clients are far more comfortable outsourcing simply the maintenance of applications rather than the management.

In a maintenance environment, the client still holds the baton and controls the sheet music while a service provider takes care of the orchestra members.

In a management environment, the client still holds the baton but a service provider writes the requested tunes and provides the sheet music to the orchestra. In essence, the client maintains control over what is to be done to applications but cedes control in terms of how.



Various providers offer varying levels of support and they tend to break down as follows (contents are partial and vary from vendor to vendor):

### Level 1: Applications Help Desk

1. Respond to end user/super user queries regarding features/functions (applications "how to")
2. Maintain end user documentation
3. Report/diagnostics to level two and three applications support staff

### Level 2: Applications Support

1. De-bug/patch defective applications via configuration or customization
2. Test and apply SAP updates/patches relative to applications
3. Extended remote end user training
4. Upgrade support (testing, loading, and production of SAP upgrade version)

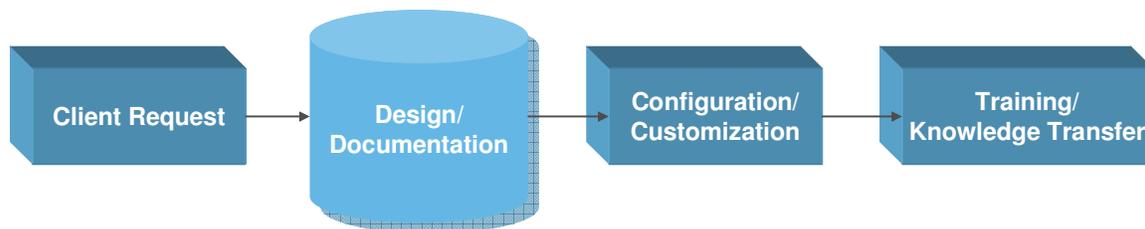
### Level 3: Applications Management

1. Custom reporting via ABAP or relevant SAP tool (SAPscript, BI, et al)
2. SAP application systems extensions via configuration and/or customization
  - extension or improvement of existing application
  - new application

- SAP approved bolt-on
3. Interfacing between SAP and legacy/other applications
  4. End user training relative to application extension or improvement
  5. Knowledge transfer to client SAP support team relative to extension or improvement
  6. Updated user and technical documentation relative to extension or improvement
  7. Extended upgrade support (strategy, blueprinting, configuration, testing, production)
  8. Audit/compliance support (often included in level 2)

In many cases, application management can simply be handled through a combination of help desk and periodic staff augmentation services.

Some vendors actually suggest that you even give up the baton and just let them run the applications *in toto*. Such an arrangement leaves the client fully dependent upon the vendor which strikes me as the sinker part that follows hook and line.



Further, returning to the theme of “applications are what we do”, take a look at that list of applications management tasks and consider which, if any, are in the wheelhouse of strategic activities.

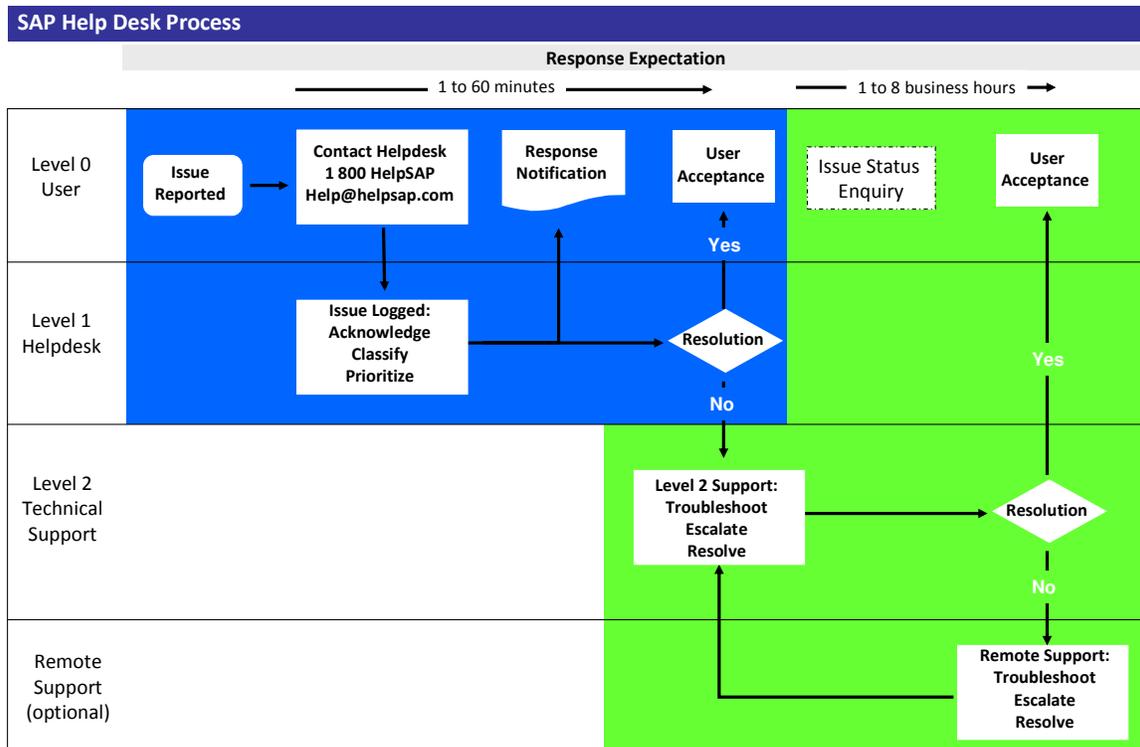
Moving directly from full in-house applications support to full-blown applications management may not be a wise move. A popular alternative is the Big Toe approach by which clients start out with application maintenance (help desk for users, issues management, and some report writing) and gradually extend the outsourcing footprint. Following the SAP Application Outsourcing Adoption Model, you can best decide to what level you should *begin* outsourcing during the Alignment and Assessment steps.

## Local and Remote Delivery Models

I am using the term “local” loosely here. Only in rare instances does your outsourcing vendor actually place staff in your location. In this context, think of local as within your cultural and geographic domain despite the fact that the services provided come from a remote location, even when that location is across the street.

Level 1 Helpdesk is straightforward. An authorized end user calls a help number or enters an issue into a help desk website. The issue is acknowledged, classified, prioritized, and resolved (usually in less than an hour). Many of these issues are resolved in the course of an initial phone call.

More complex issues will be routed directly to level 2 support for resolution. Level 2 issues usually take from one to eight business hours for resolution.



Any term that creates more confusion than clarity should be scrapped and this applies to the term, “offshore”. As it happens, this expression is only used in North America. Elsewhere, the realm of services that can be supplied from any remote location is referred to as global sourcing. Even this term can be misleading. If you are located in Boston and your SAP applications support provider is in South Dakota, it is certainly not offshore and very probably not global.

I therefore settle on the term “remote” for services that are provided from outside your cultural and/or geographic boundaries.

In *The SAP Blue Book, A Concise Business Guide to the World of SAP*, I describe a local/remote combination of delivery resource that can be very beneficial. While a mix of local and remote resource for SAP support can also be beneficial, a different set of considerations apply. The most important of these revolves around a continuous need for effective communication. In an implementation setting, end users are not contacting remote sites for assistance and it is the initial end user-help desk relationship that is at the heart of successful SAP outsourced support.

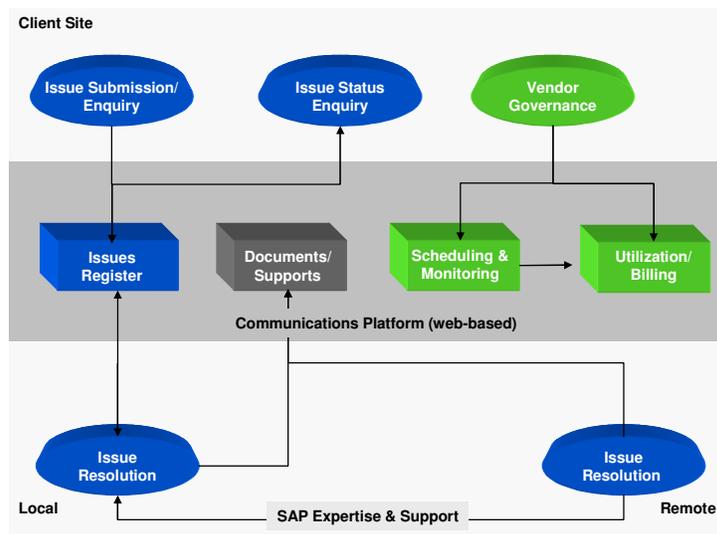
Note that in the preceding diagram, a level 2 issue can be consigned to a remote support site for resolution. Suppliers that provide both local and remote support are able to a) directly address a client in a comfortable cultural and geographic setting (same language, time-zone, etc.) and b) where needed, tap into a deeper and more diverse remote talent pool that will also cost less than the local resource. (Rates vary from country to country and firm to firm but a thumbnail comparison is that a qualified U.S.-based applications support consultant will cost from \$120 to \$160 per hour, or twice the rate of a qualified “remote” applications support consultant.)

When people talk or write about “cheap off-shore resource”, they usually fail to comprehend that such the deployment of this resource varies considerably. It is one thing to e-mail specifications from Boston to Shanghai for java programming and quite another to perform business process design between a Boston client and a Shanghai consultant.

When using a local/remote supplier for SAP applications support, a client should insist upon the deployment of a proven web-based communications platform. E-mails and phone calls should be kept to a minimum. “Visibility” is the keyword as a client should be able to see, at any time:

1. Pending issues (by type, priority, and point of origin)
2. Scheduling (resource, estimated resolution time)
3. Closed/resolved issues log
4. Rolling costs
5. Document repository (general documents and indexed to issues)

This is the information a client needs in any case, whether the help desk resource is on Mars or one floor up.



In addition to a robust communications platform, an SAP applications support supplier should also provide rich statistics that will drive a diagnostic emanating from helpdesk activity. As elaborated further on, I have long observed a very high percentage of help desk tickets relate to training issues.

## Governance for Outsourced SAP Applications Support

Failure to manage your vendor will lead directly to failure. This is not because the service providers will take advantage of you (though they might) but more because, without your governance, the service providers will not be positioned to succeed for you.

Unless yours is a fairly small organization, you will necessarily have more than one person involved in vendor governance. Below are the four key subject areas of vendor governance:

### **Relationship Governance: daily**

Executive steering: keeping the vendor aware of current priorities or business issues

Problem resolution: following end user satisfaction

Service request process: assuring that communications between users and vendor support are functional

Escalation process: supervision or monitoring of exceptional issues

### **Performance Processes: weekly**

Service-level tracking and reporting: a credible vendor will provide credible reporting on at least a weekly basis

Service-level review: vendor reports should be validated with the user community

Benchmarking: performance thresholds can be modified to spur improvement (see fee strategies)

### **Contract Processes: quarterly or bi-annual**

Negotiation management

Contract management

Contractor management

Scope change process

### **Technical Processes: as-needed**

Production acceptance and change management: this applies to configuration changes and thus to an application management scenario

Governance compliance

Architectural compliance

All of the above speaks to governance but it really comes down to governing; by that I mean that having the structure and the necessary paperwork will give you a framework but actually performing the governance is what matters most.

If your firm is also outsourcing hosting and/or Basis administration, your governance on the technical end may be multi-vendor which will require a second level of governance focusing on the vendor-to-vendor relationship. This does not have to be complex as the relationship between application management and technical teams is identical to that described in chapter “Building and Sustaining an SAP Center of Excellence.”

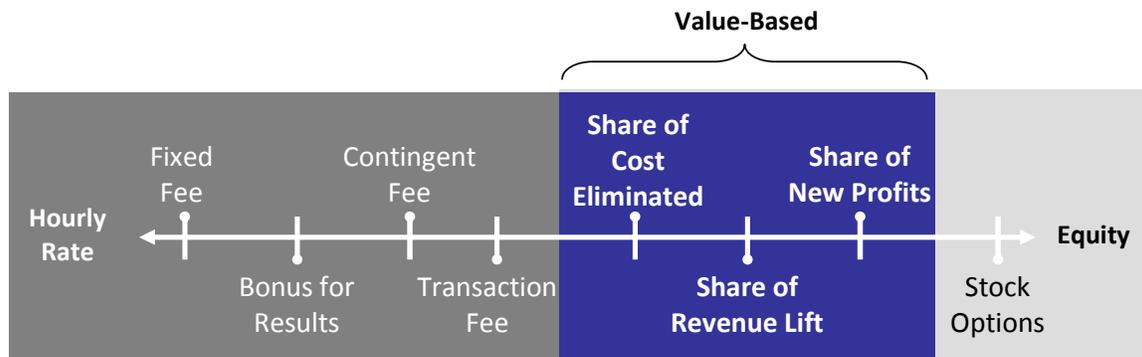
## Fee Strategies

While there are theoretically a variety of fee models for application support, the majority are fixed-fee and include:

- A standard fixed-fee for a packet of pre-determined hours
- A standard hourly fee for time in excess of the base amount

The obvious weakness of such an arrangement is that clients may pay for unused time but will always pay when that time is exceeded.

The way around this is to arrange a fixed fee that takes into account three-to-six month averages rather than simply month-to-month. Thus, if a vendor spends less than the allotted time in some months and more in others, costs will balance out to client benefit.



In essence, what you get with a **fixed fee** is some predictability of cost but that is all you get. Service providers working on a fixed fee have little financial motivation to do anything more than deliver the proscribed services. This is a subject where I often cut bait with service providers, especially when they claim a desire to be a “partner” with their clients.

To promote partnership status, clients should consider fee models to the right of fixed fee on the chart above. Paying a **bonus for good results** (e.g. high % of call resolutions in short time-frames) will provide vendor motivation but such an arrangement should be counterbalanced by getting a credit back for bad results (e.g. low % of call resolutions and/or long time-frames).

Some clients have exhibited a preference for paying a **transaction fee**, a more on-demand approach by which each help desk ticket is billed individually by time spent. The unpredictable nature of client demand in this regard leads providers to charge higher hourly rates than for a fixed-fee arrangement.

**Gain-sharing** methods lead to the highest level of client-vendor partnership since providers are motivated to help clients reduce costs and/or raise revenues. The down side of such arrangements is that measurement is required and this is an area in which most clients are weak.

Further, gain-sharing fee models lend themselves primarily to application management and strategic efforts as opposed to application maintenance/keeping the lights on.

The simplest method to govern is fixed-fee with some sort of risk/reward kicker based upon support results in which the initial bar is set at whatever support levels were provided in-house (before transition to the provider). Clients seeking to continually raise this bar should remember that there are, quite naturally, diminishing opportunities to improve. For example, if an initial benchmark for closing out help desk issues is 95% and a service provider improves that figure to 98%, the benchmark should not be going up.

If you are seeking cost reductions, the local/remote model can be very attractive provided a) there is sufficient local resource for language and cultural comfort and b) a solid web-based communications platform.

One final note about fee strategies: you should be getting some form of concession based upon the length of contract. While this may seem obvious, it is not always the case in the real world. An important negotiating point for new adopters is that if you start out with a one-year contract, you should include wording to the effect that an extension, prior to completion of the first year, will result in, at minimum, no raise in fees for the extension period. The point of this is that after the first year, a client may well be a captive audience and thus vulnerable to price hikes for years two, three, and beyond.

## We Do It Themselves

The notion of having everything under the IT sun accomplished in-house arose in the 1970's with the advent of what were then called mini-computers, prominently supplied by firms such as Digital Equipment and Data General. (I started my career in 1974 on Digital Equipment's PDP-11.) Prior to the availability of mini-computers, firms that could not afford mainframes worked on a time-share basis; they were, in essence, outsourcing their hosting, disaster recovery, and infrastructure maintenance. During this same period, vendors finally de-coupled hardware and software (that's right, you used to have to buy them in a bundle) and this de-coupling gave rise to software houses to which software development was...outsourced.

One comment that has been repeated to me by clients over the years in regard to IT projects: "We're in [fill in the blank] business, not the IT business." They are expressing their desire to return to core business activities and get out from under the details of information technology maintenance.

An extremely bright Basis specialist I know recently told me that IT directors will not outsource because they are fearful of giving up even a portion of the FTE's who report to them. Clearly, this is so in many cases but such an attitude has more to do with turf protection than with driving value for a firm. As for the consequential argument of "but I can't control outside staff", I would counter with: what do you prefer, controlling a number of individual employees or a vendor contact or two? At any rate, it is outcomes you should be managing, not people.

The final decision fulcrum remains: how far do you want to extend yourself with activities that are not strategic? And what business momentum could you provide your firm with the time freed up?

**Michael Doane** is a leading authority on enterprise applications, Mr. Doane has forty years of business and information systems experience, including twenty-eight as a consultant and industry analyst. He advises clients on strategies, implementation and integration, service provider selection and management, and best practices and methods for deriving value from enterprise applications investments.

In addition to prior roles as a practice lead at Grant Thornton and The Consulting Alliance, Mr. Doane has directed several major consulting engagements for large systems integrators, most notably in financials and logistics, in North America, Europe, and Asia. Prior to entering the world of consulting, he was the European IS director for the Plessey Company Ltd. and for Ferry Peter, a division of Wiggins Teape.

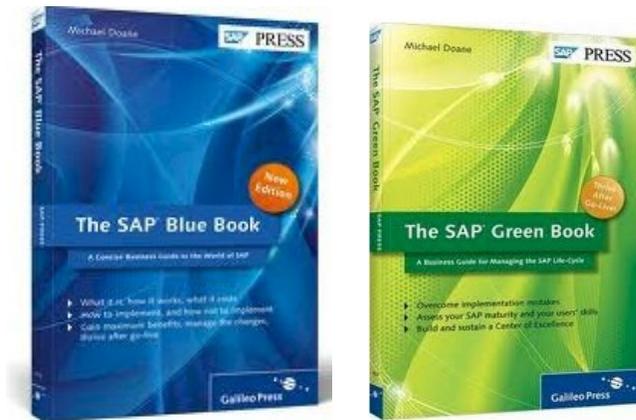
From 2001 to mid-2005, he was an industry analyst with META Group where he created and led the Professional Services Strategies group and was a contributing member of the Enterprise Applications Strategies group. He is widely published (including four books on SAP) and has led more than seventy executive seminars on enterprise applications strategies and best practices.

Mr. Doane is the author of *The SAP Blue Book, a Concise Business Guide to the World of SAP*, and *The SAP Green Book, A Business Guide to Managing the SAP Lifecycle*. He has led numerous executive seminars in the U.S. and Europe on the subjects of implementation best practices, return on information systems investments, and application lifecycle management.

**Web:** [www.michaeldoane.com](http://www.michaeldoane.com)

**Blog:** <http://sapsearchlight.blogspot.com/>

**Email:** [michael@michaeldoane.com](mailto:michael@michaeldoane.com)



**Both books are available through SAP Press at [www.sap-press.com](http://www.sap-press.com)**

" We've had plenty of great advice on how to get the most out of our SAP solution since Go Live, a lot of which unfortunately got lost in the noise and sheer volume of ideas. *The SAP Green Book, Thrive After Go-Live* clearly distilled the most important principles and brought them to life. It's helped clarify a number of areas and simplified the roadmap for our journey. A must read for all CIO's using SAP. "

Chris Barendregt, Chief Information Officer, Fonterra

