



# The S/4HANA Modernization Journey

App Modernization Strategies for SAP Customers and  
Microsoft Azure as an SAP Cloud Platform

MARCH 2023

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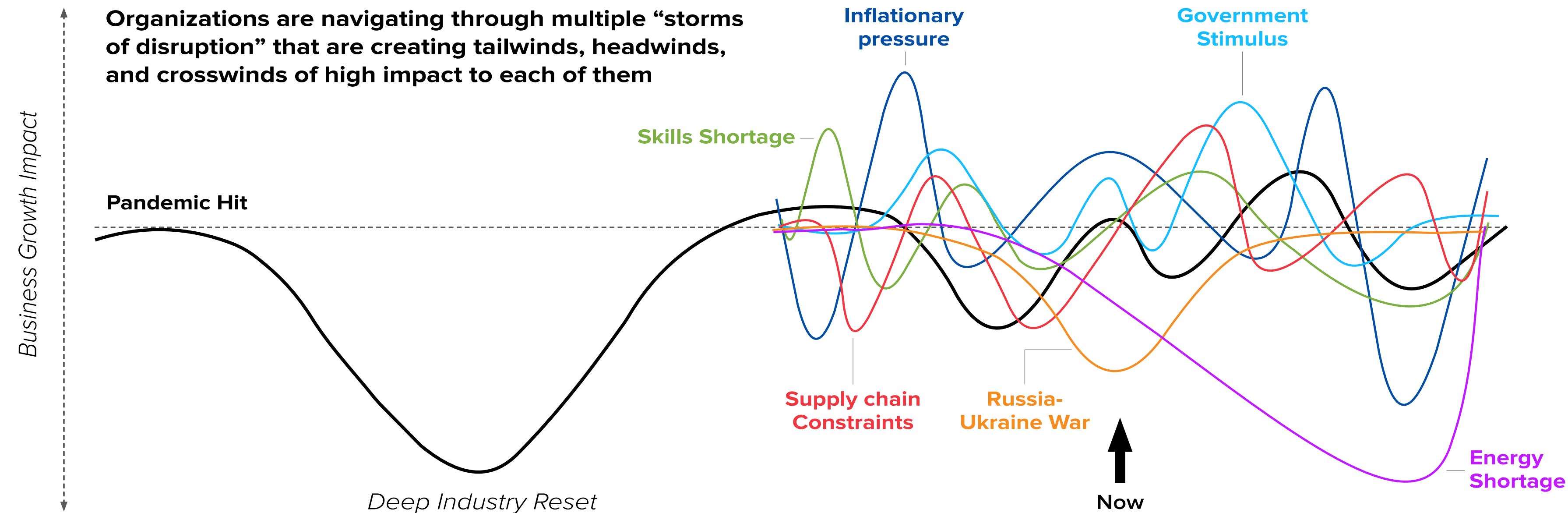
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A hand is shown in the foreground, reaching towards a digital interface. The interface features a central box with the text 'CLOUD TECHNOLOGY' in a bold, white, sans-serif font. Surrounding this box are various icons and symbols, including a gear, a cloud with an arrow, and a globe. The background is a dark blue, textured surface with glowing lines and shapes, suggesting a futuristic or technological environment.

CLOUD  
TECHNOLOGY

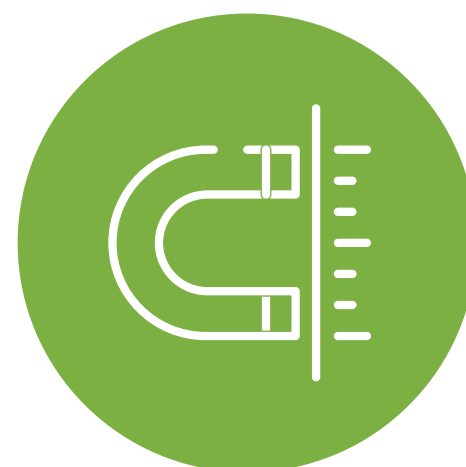


# Storms of Disruption: The End of Business as Usual



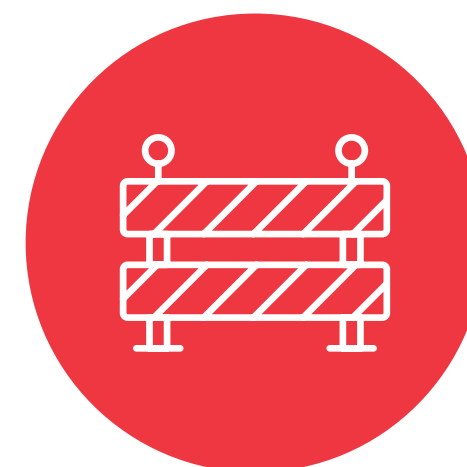
These recent disruptions are characterized by being:

- Enduring
- Volatile
- Interconnected
- Company-specific



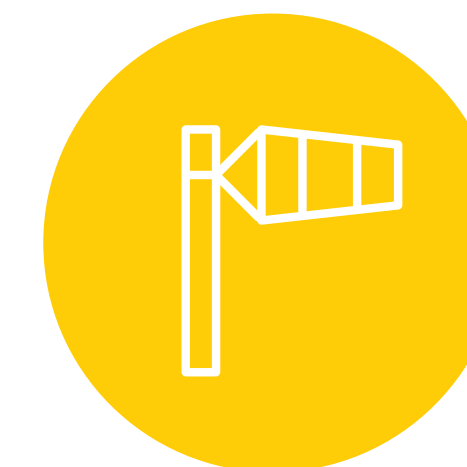
## Tailwinds (positive forces that bring new opportunities)

1. Hybrid working
2. Consumer digital demand
3. Digital industry ecosystem
4. New digital business models
5. Emergence of new disruptive technologies



## Headwinds (negative forces that challenge status quo)

1. Inflationary pressures
2. Cybersecurity threats
3. Skill shortages
4. Russia-Ukraine war
5. Supply chain constraints



## Crosswinds (neutral forces that must be considered)

1. New digital data regulations
2. Digital sovereignty
3. Sustainability
4. Government stimulus
5. New digital-native competitors

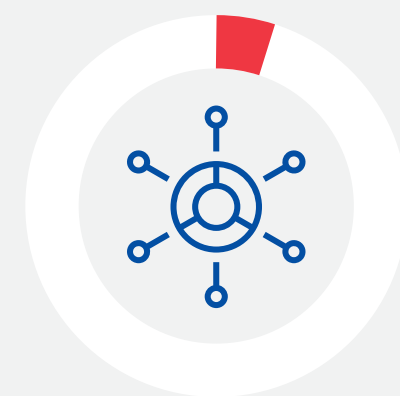
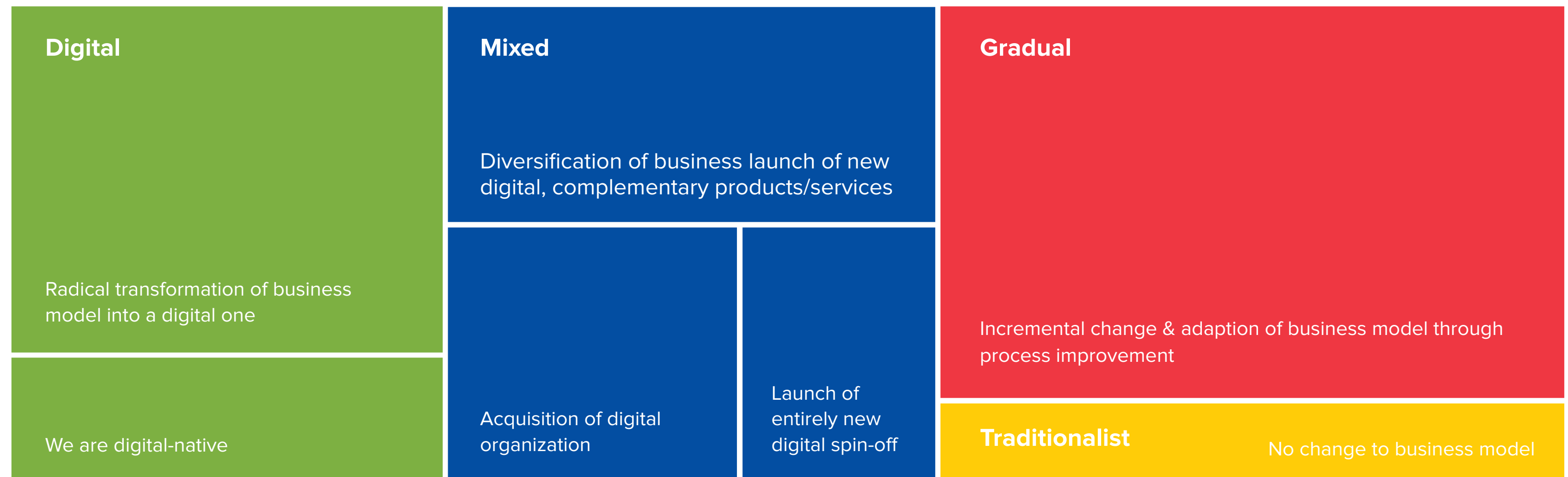
# Transition to Digital Business Models Implies Fundamental Business Changes Ahead

**Q: Compared with the business model you had 10 years ago, which of the following best describes your strategy for business model innovation?**

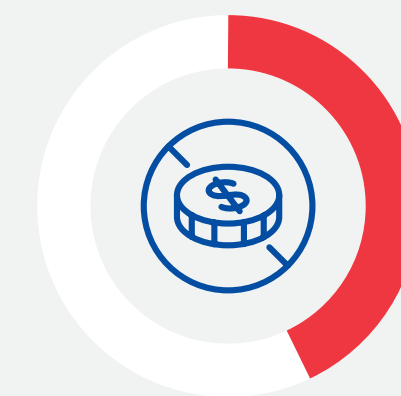
● Digital ● Mixed ● Gradual ● Traditionalist

**We see four approaches to digital business models:**

- 1 **Digital** (fully transitioned to digital)
- 2 **Mixed** (mix of traditional and digital units)
- 3 **Gradual** (incremental transition to digital)
- 4 **Traditionalist** (maintaining traditional business model)



Only **5%** of European organizations have not changed their business model over the past decade



European organizations expect **43%** of their revenues to be driven by digital business models in 2 years

# SAP ERP Customers Overwhelmingly Want to Modernize



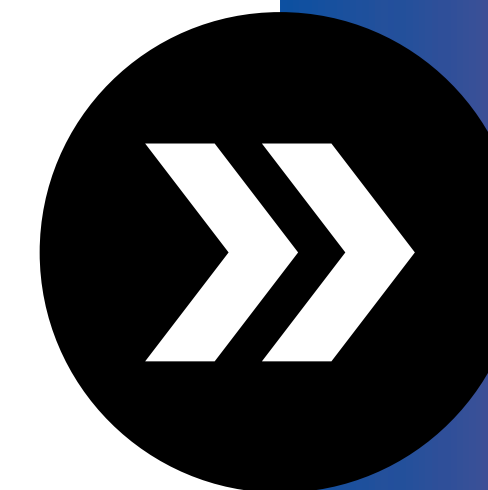
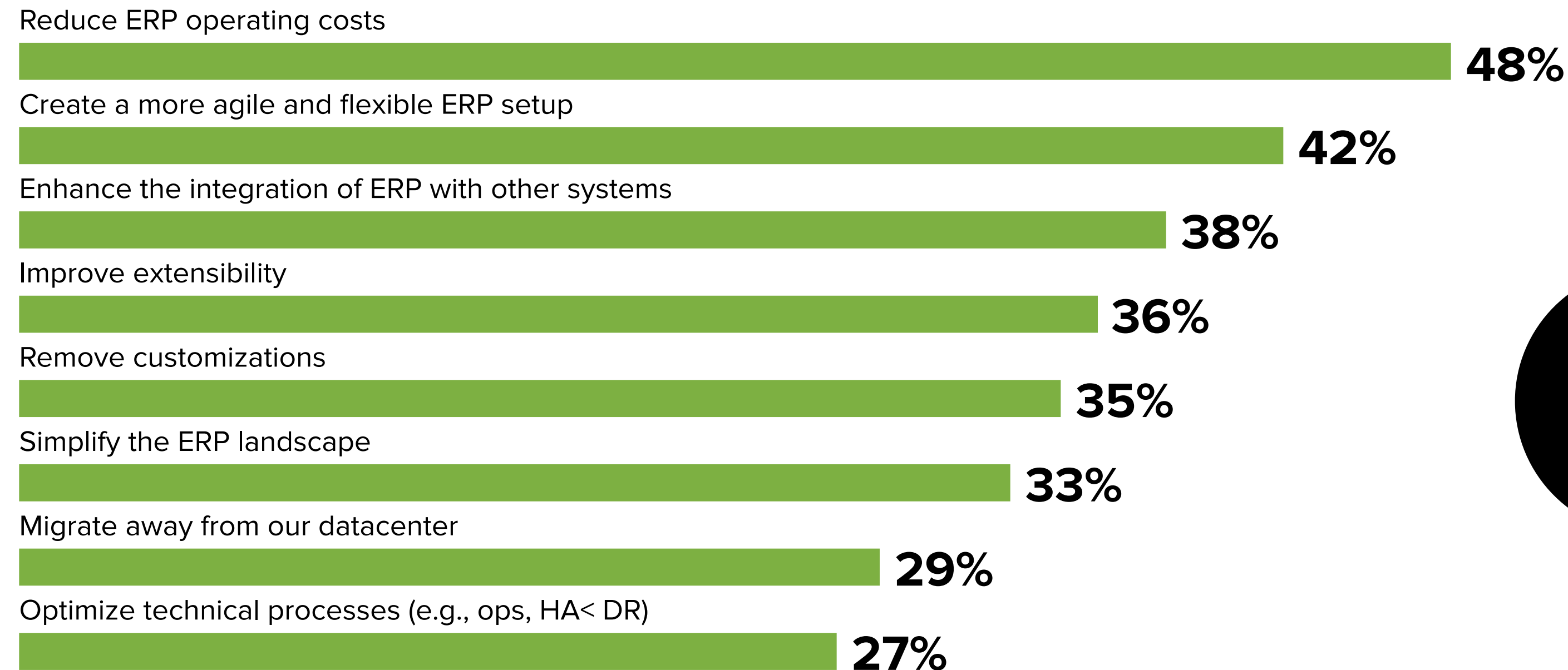
Only **3%** of interviewed SAP customers have decided to stay on their “current SAP ERP system for the foreseeable future”

Source: IDC HANA Core Modernization Survey, January 2022 (n=700)

**1 in every 4** business leaders in IDC’s C-Suite Survey customers have stated that “modernizing core business applications” is a top technology priority for the next 12 months

Source: IDC WW C-Suite Tech Survey, August 2022 (n=858)

## Q: What are (or were) the top technical objectives for your migration to SAP S/4HANA ?

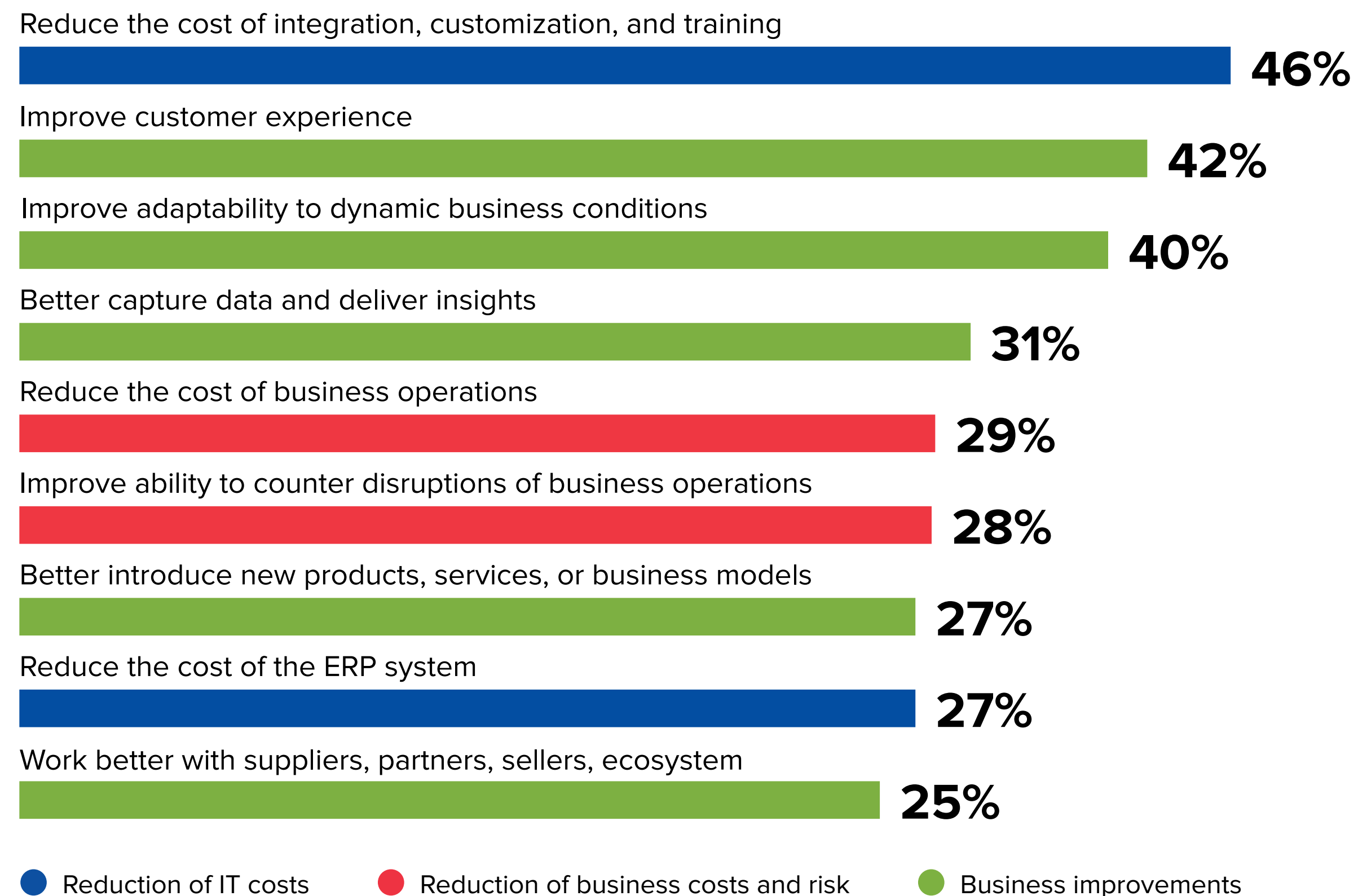


## Goal:

Leaner, simplified, lower-cost, more agile, standardized, cloud-based ERP core

# Key SAP Modernization Business Case Elements Are Lower IT Costs, Better Customer Experience, and Improved Strategic Agility

**Q: What are (or were) the top technical objectives for your migration to SAP S/4HANA ?**



SAP ERP customers identified a wide variety of business case elements across IT and business, suitable for a comprehensive business case. However, in our experience, **most actual SAP modernization business cases are based exclusively on reduced, avoided, or eliminated IT costs.** These cost components are easier to estimate and quite closely aligned with modernization efforts. The actual modernization business impact goes much beyond IT, but often this wider business impact is just too uncertain and intangible for inclusion in a formal business case, unfortunately.

**Bo Lykkegaard, IDC**



# Cloud Deployment Is the Default Destination for S/4HANA



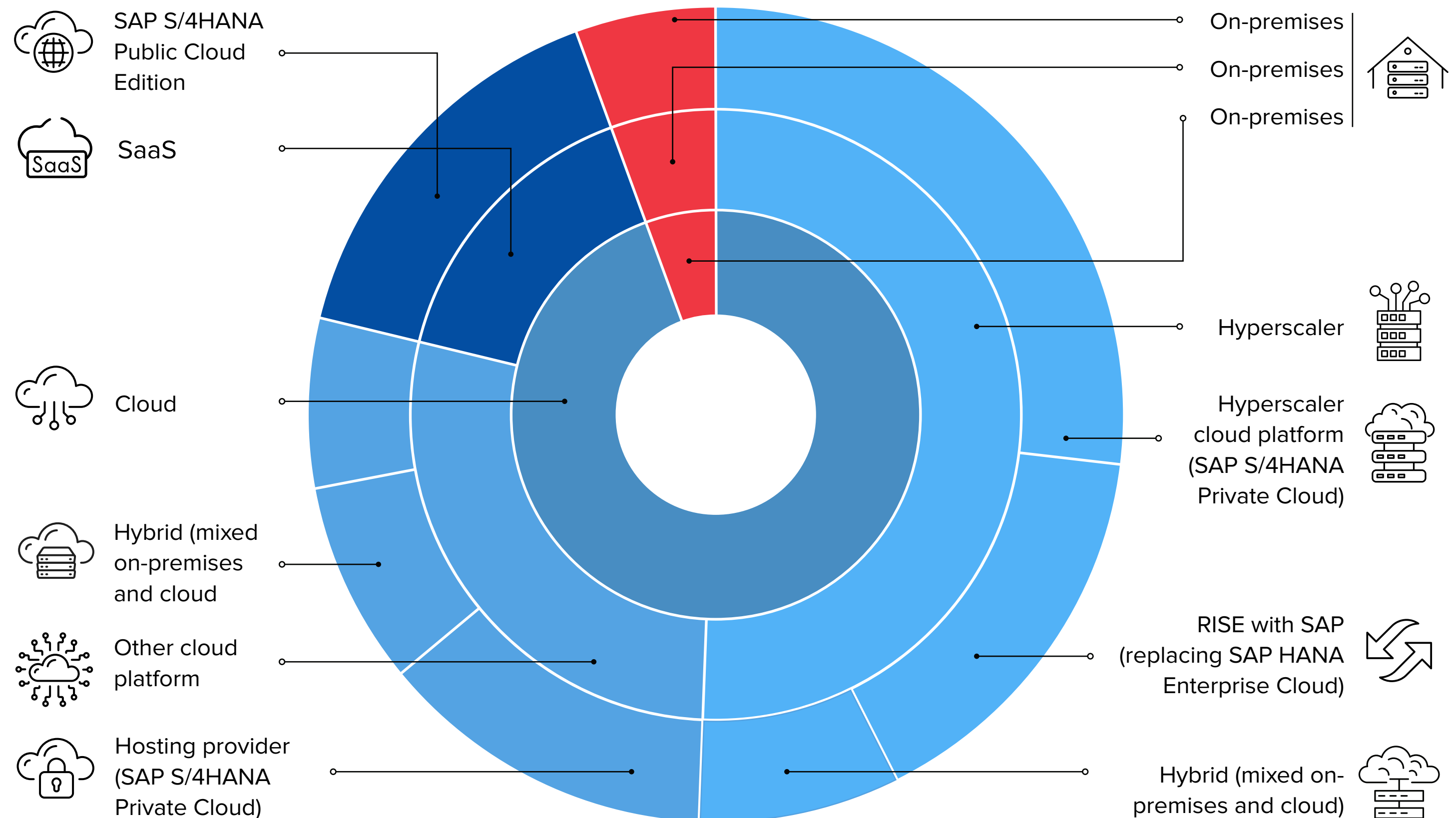
19 in every 20 S/4HANA migrating customers aim for some sort of cloud deployment for S/4HANA. **Cloud is a default.**

27% specifically call out hyperscalers, such as Microsoft Azure, Amazon Web Services, and Google Cloud Platform, as destination platforms, but a significant proportion of those mentioning S/4HANA Cloud, hybrid cloud deployment, and HANA Enterprise Cloud (now replaced by RISE with SAP) are likely to use hyperscaler cloud platforms as well.

As SAP scales back its own infrastructure-as-a-service ambitions, IDC believes that the **hyperscalers will gain further popularity.**

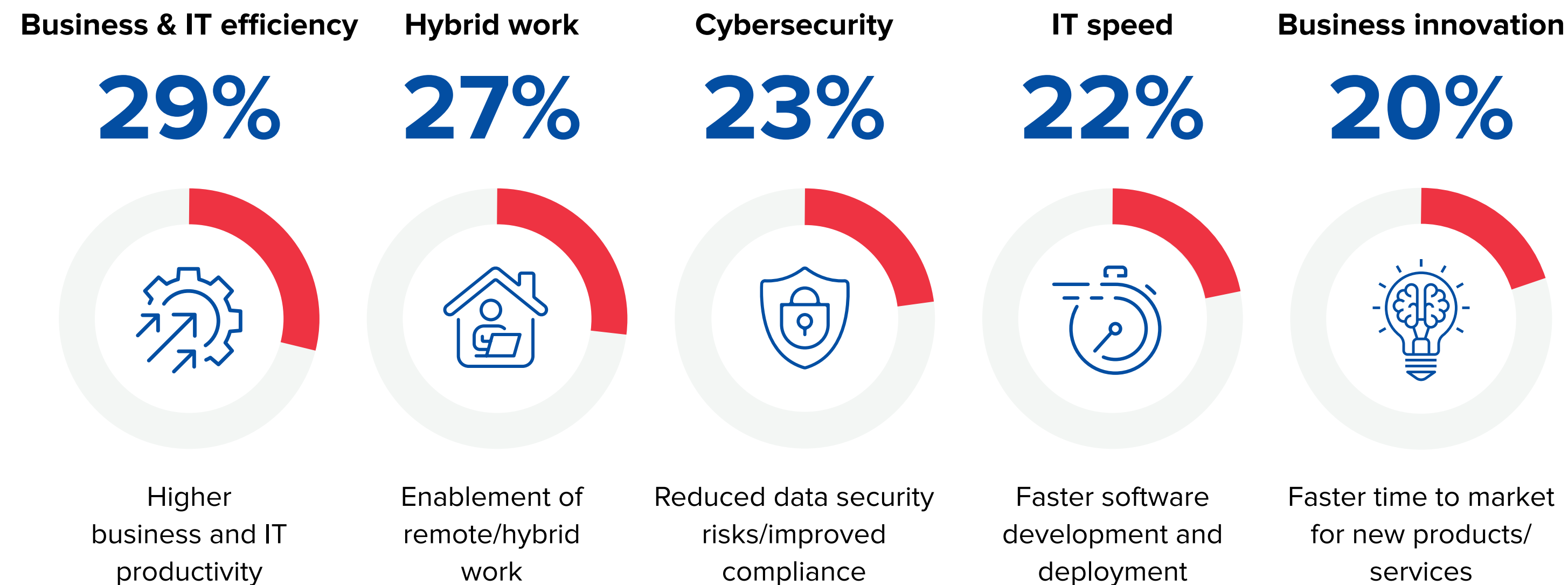
**Bo Lykkegaard, IDC**

## Q: Which usage-location model does your organization use/plan to use for your SAP S/4HANA ?

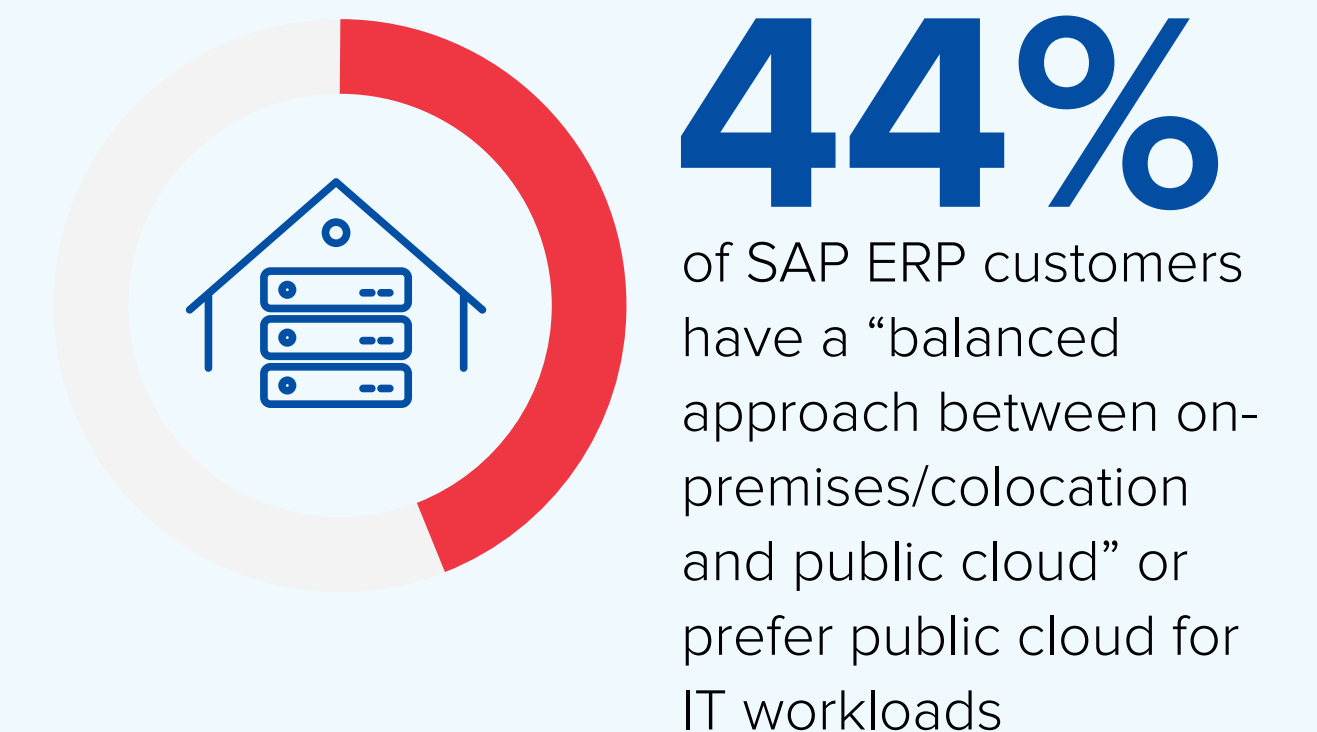


# SAP ERP Customers Are Moving to the Public Cloud for Strategic Business Reasons

**Q: Which business benefits has your organization achieved (or expected to achieve) from migration to public cloud?**

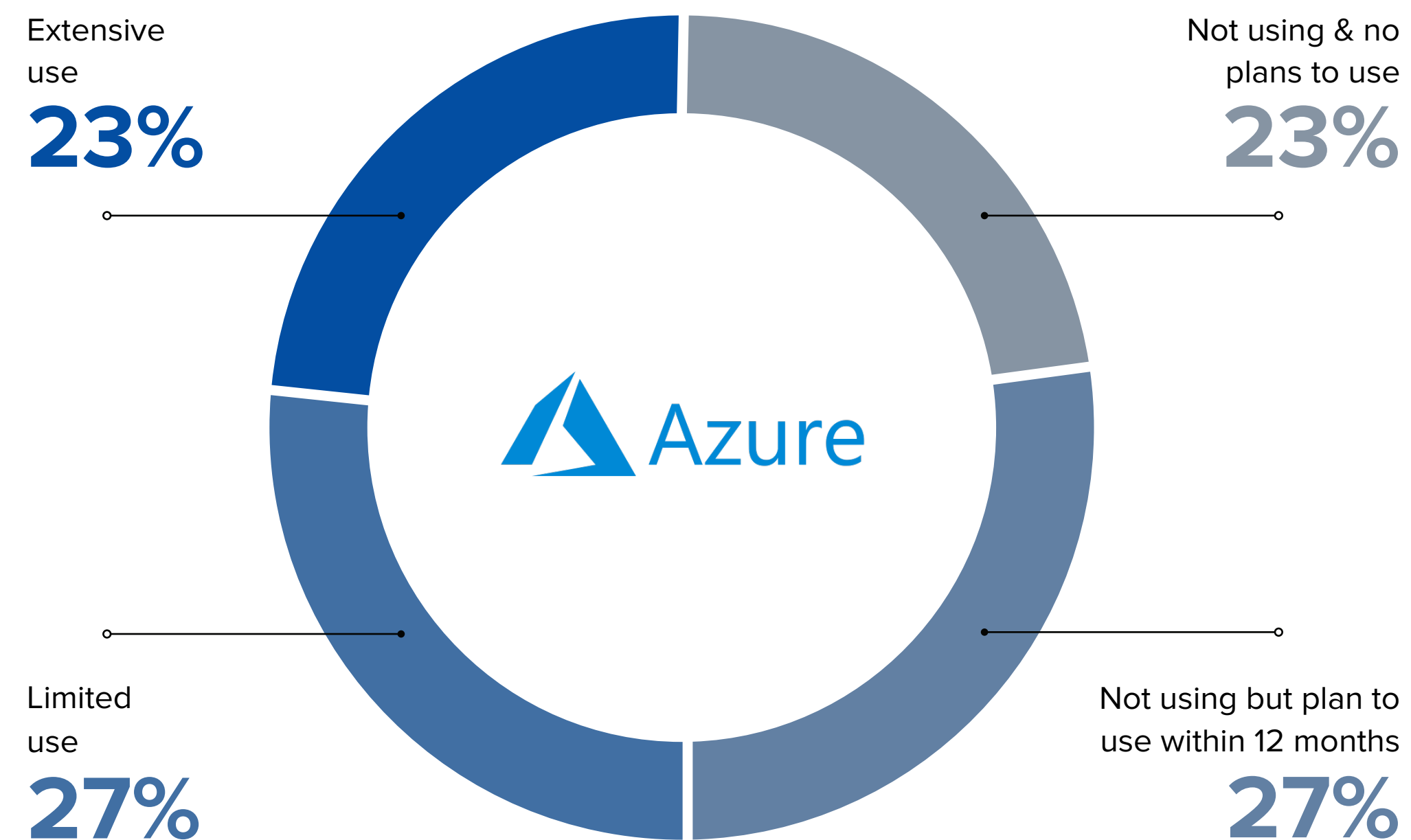


Moving IT workloads to the public cloud is not about hardware and services arbitrage. It is a **strategic, long-term commitment**, done to achieve **lasting business advantages**.



# Over Half of SAP Customers Already Use Azure for IT Workloads

**Q: To what extent does your organization use, or plan to use within 12 months, Microsoft Azure for IaaS, PaaS, and/or SaaS?**



**When compared to other cloud platforms, the four areas where Microsoft Azure has the strongest relative advantage are:**

- 1 Marketplace/ecosystem
- 2 Digital resilience (e.g., disaster recovery)
- 3 Trust (security, privacy, compliance, certifications)
- 4 Openness (least lock-in)

The recent IDC Multicloud 2022 Survey confirmed that Microsoft Azure is a popular cloud platform across industries and European countries. According to IDC's Semiannual Public



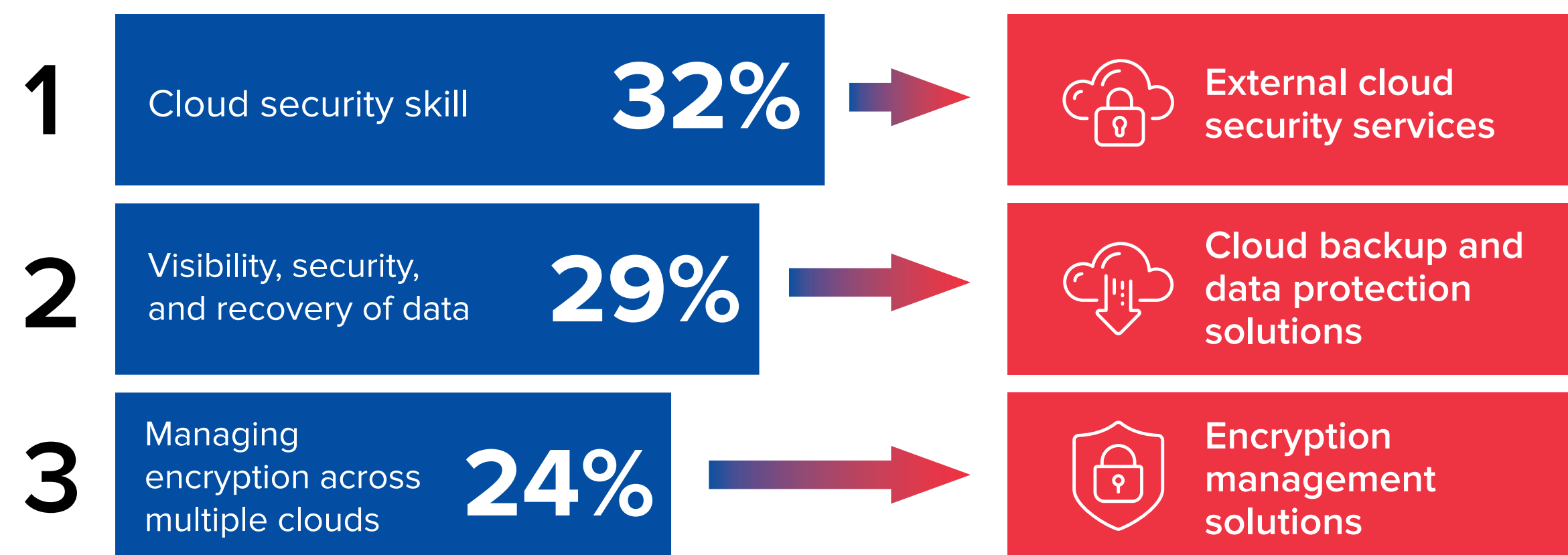
Cloud Services Tracker, Microsoft was the **#1** provider of platform-as-a-service worldwide in 1H22



# Cybersecurity Is a Driver for SAP Customers to Move to Azure



The top security concerns of SAP customers when moving workloads to cloud platforms can be resolved with appropriate services and solutions:



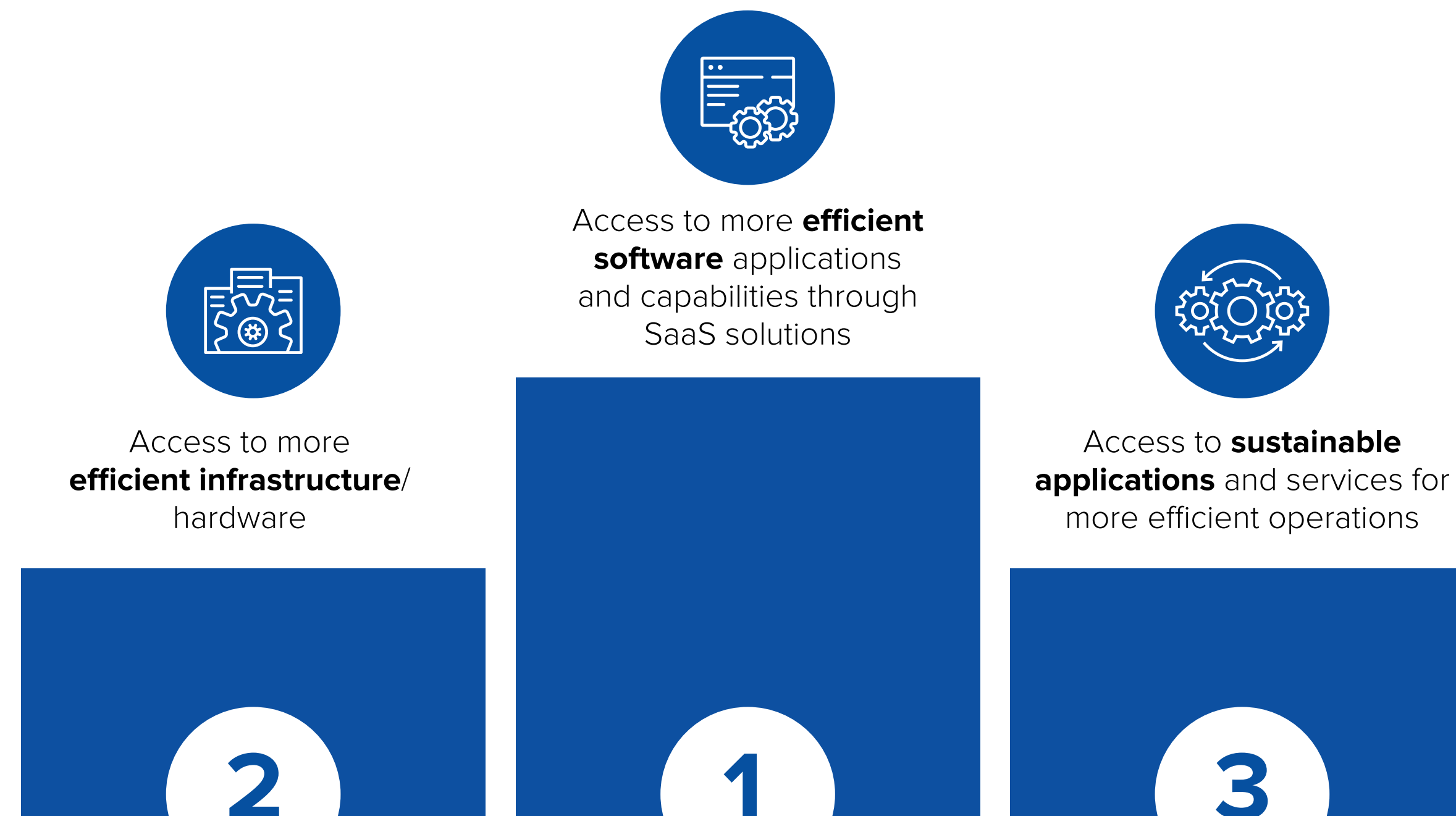
**IDC — in working with organizations that are moving workloads from on-premises to Azure — has observed the following general security upsides and advantages of the cloud:**



- Active Directory on Azure. For organizations that are already managing users on Active Directory, identity and access management in the cloud is simply an extension of the existing setup
- Physical infrastructure of cloud provider is highly secure
- Azure has built-in security components (e.g., firewall)
- Third-party security products/services that are continuous (24X7) are available on the platform
- Organizations can configure digital sovereignty (data and workload control)

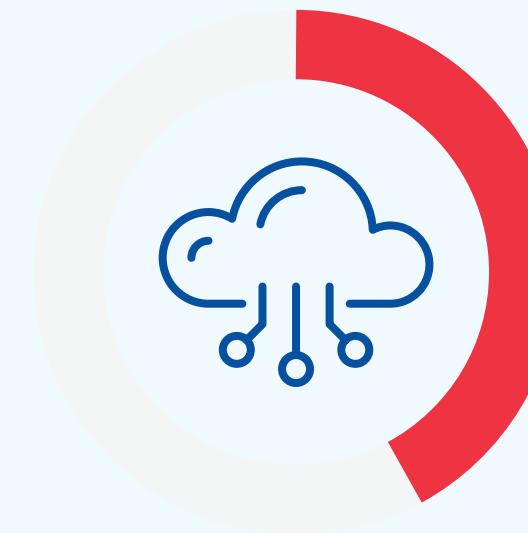
# Sustainability Is Another Motivator for SAP Customers to Go to Azure

**Q: In which of the following ways do you think cloud is helping your organization achieve your sustainability objectives?**



Sustainability is one of several key motivators for organizations to move workloads to the cloud. Large hosting centers often have unique access to renewable energy sources and have highly efficient infrastructure and operations. SaaS applications have a lighter IT footprint, especially on the client side, and many offer applications and services to measure and manage carbon footprint.

**Bo Lykkegaard, IDC**

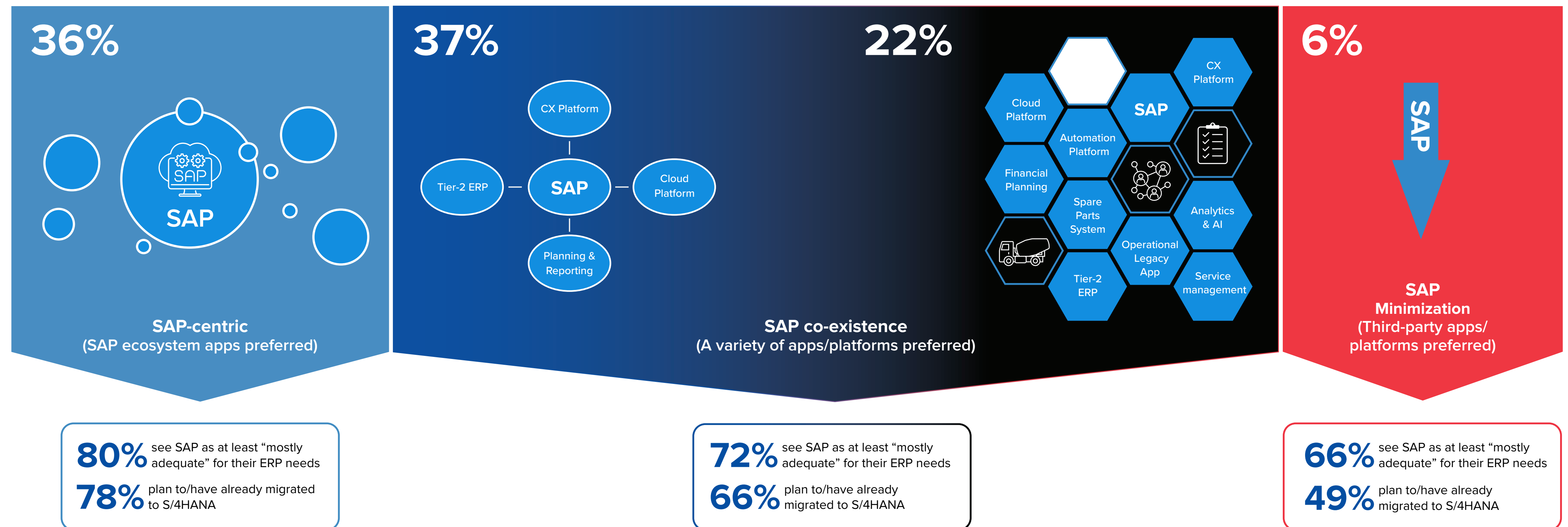


**42%** of SAP ERP customers state that “sustainability & carbon neutrality initiatives” are a driver of increased cloud use



# The Majority of SAP ERP Customers Prefer Application Platform Co-existence

Q. Where will SAP fit in your future enterprise architecture?



# Nearly a Third of SAP ERP Customers Have Already Moved to S/4HANA, But Most Have Yet to Finalize Their Migration Plans and Implementation



There has been a steady and substantial flow of SAP ERP customers migrating to S/4HANA over the past two years. However, almost one-third still have to decide and start planning their ERP future.

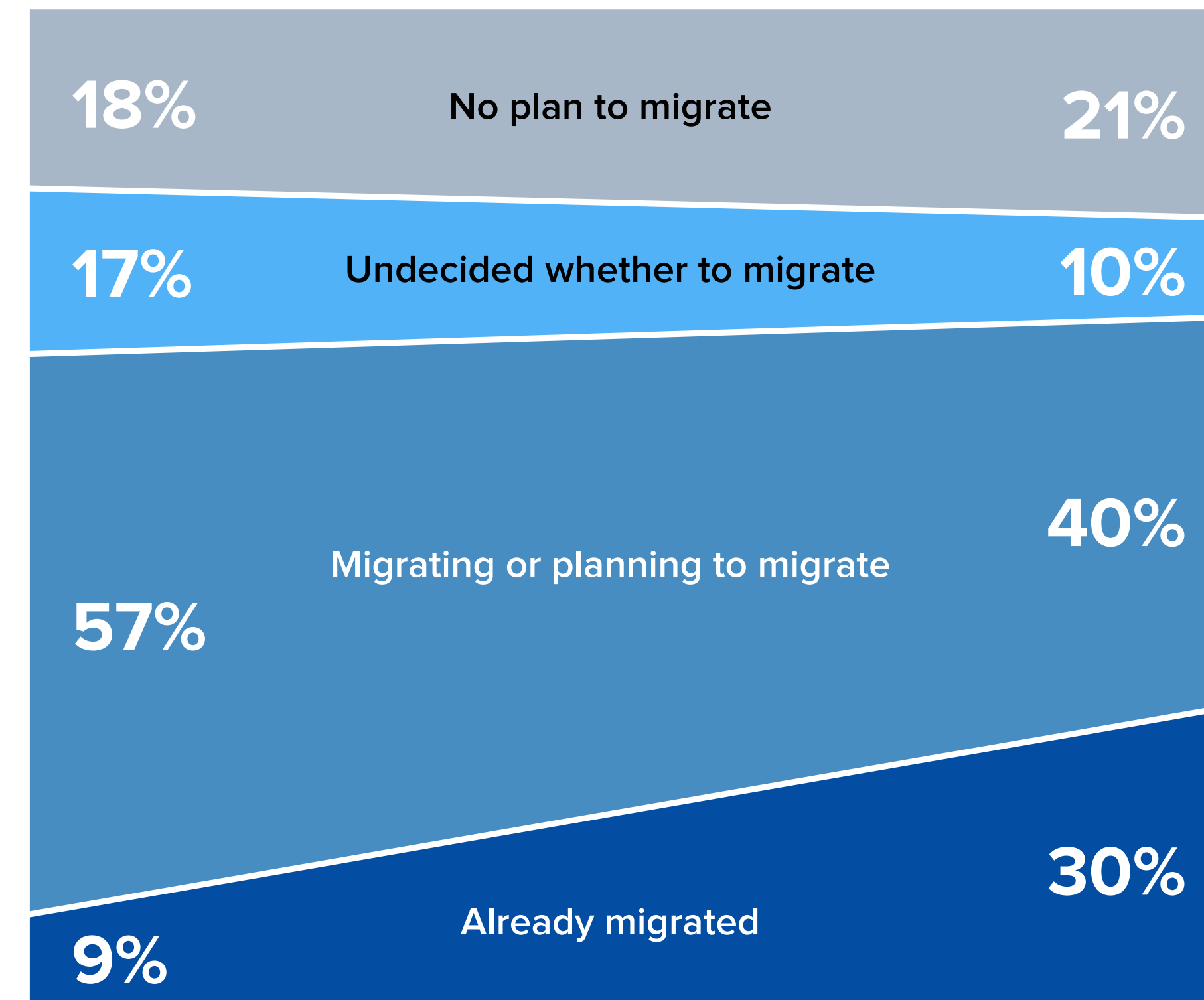
Among the biggest concerns for those yet to migrate is uncertainty over costs. Those concerns should be eased by the fact that 88% of migrated customers said the costs of their SAP ERP modernization fell within their original estimates.

With careful planning and the right support, cost concerns do not need to be a barrier to modernization initiatives.

**Ashok Patel, IDC**

March 2020

January 2022



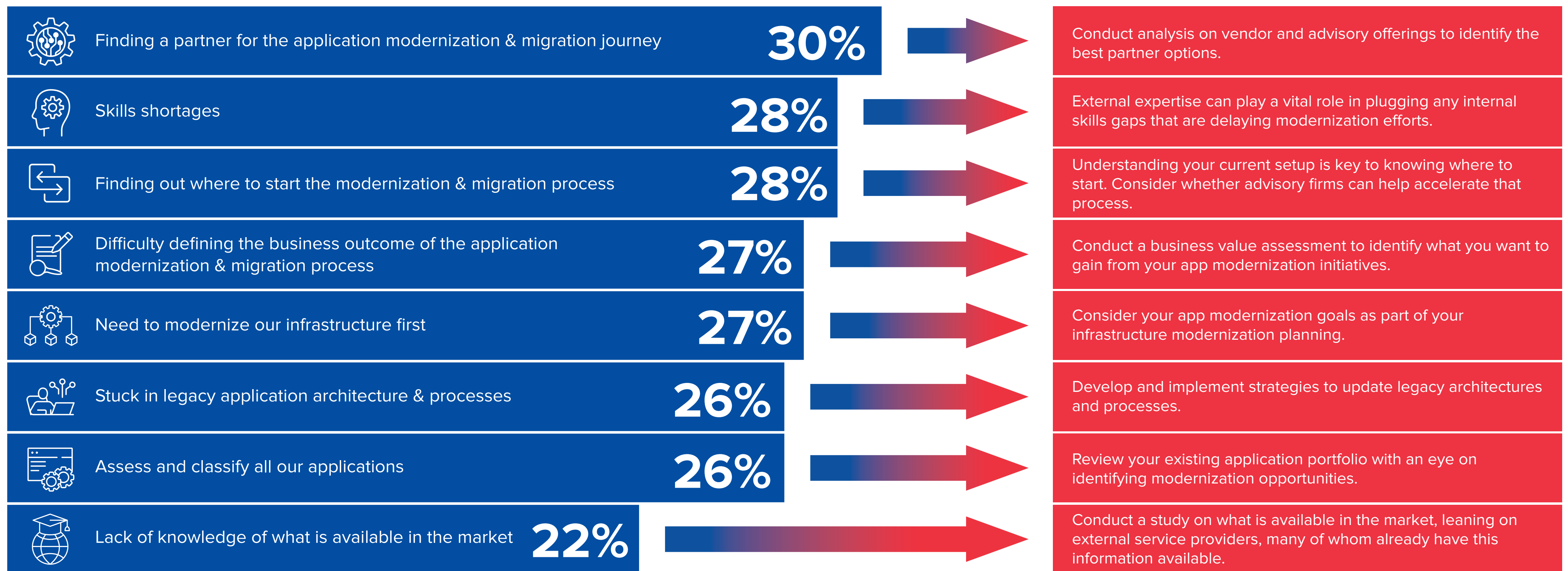
**Q. Where does your organization stand regarding migration to SAP S/4HANA?**



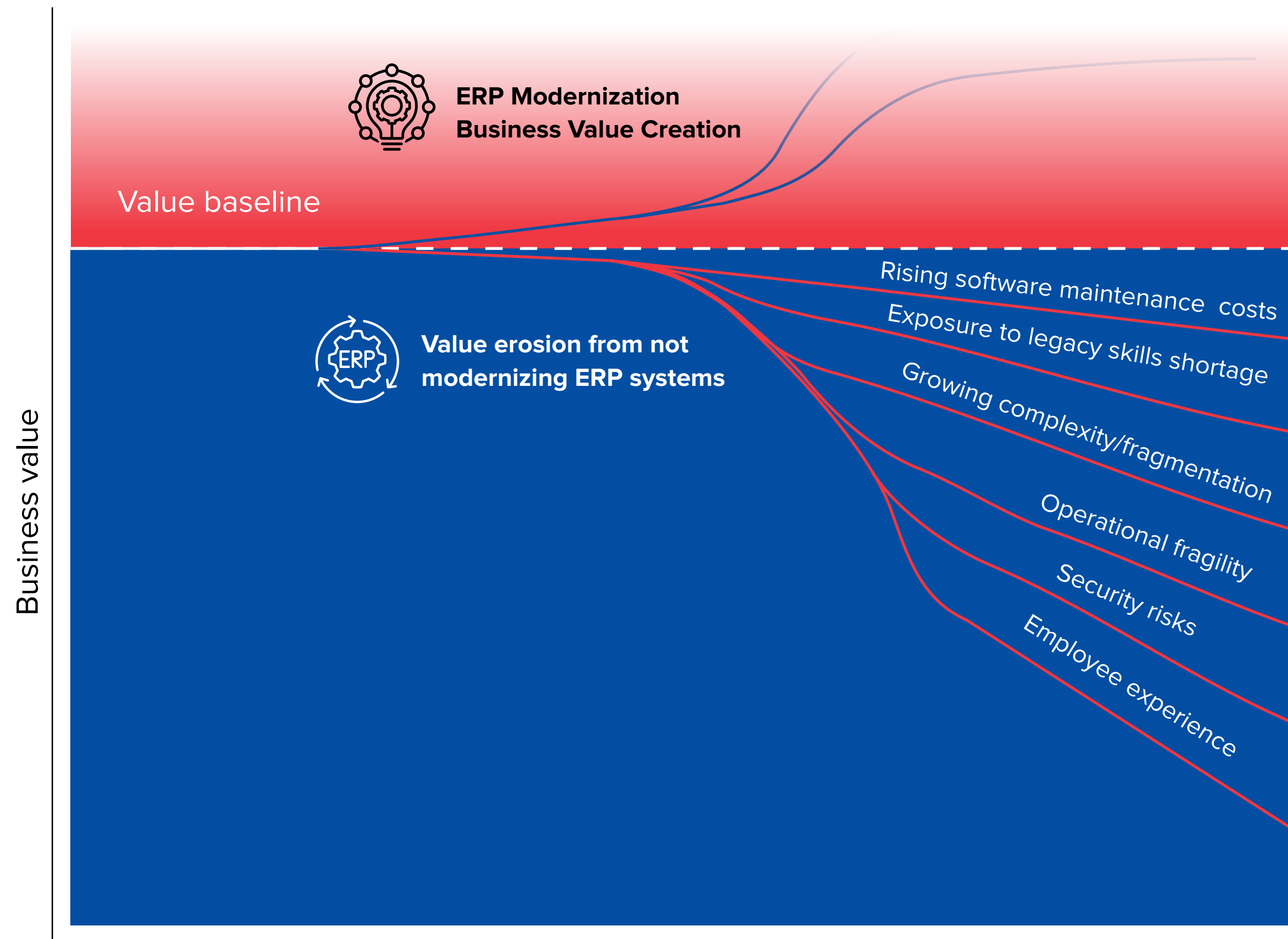
# SAP Customers Face an Array of Barriers for App Modernization, But There Are Solutions to Overcome All of These Challenges

**Q: What are the key app modernization barriers among SAP customers?**

**IDC recommendations**



# The Costs and Risks of Doing Nothing Are Significant and Are Continuously and Irreversibly Increasing



**48%** of SAP ERP customers are migrating to S/4HANA to reduce their ERP operating costs

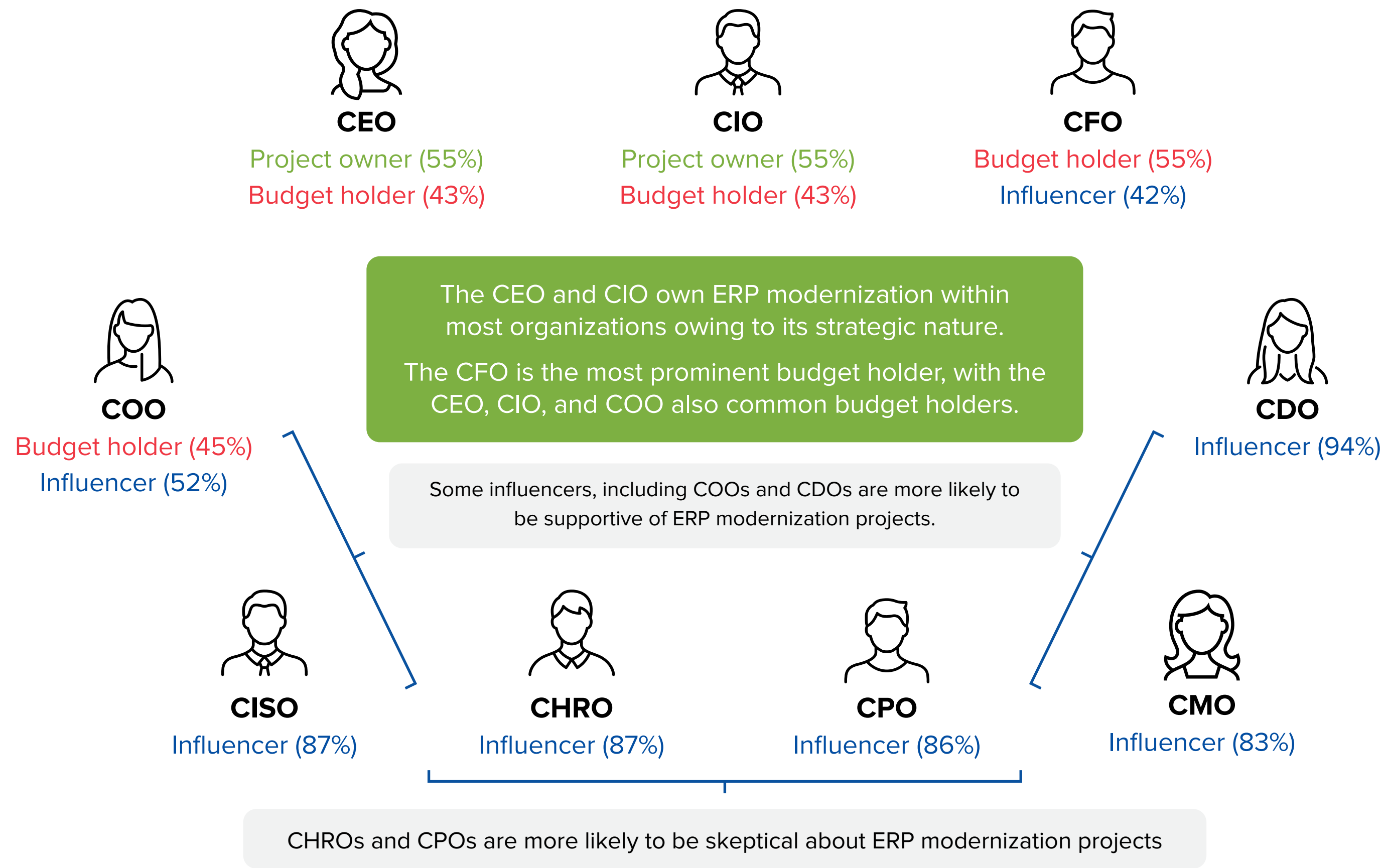


Source: IDC HANA Core Modernization Survey, January 2022 (n=700)

- Delaying ERP modernization exposes organisations to rising costs, which will increase further the longer legacy ERP is maintained.
- Legacy ERP skills shortages are expected to increase as more companies migrate to newer solutions.
- Integrating newer, cloud-based apps/platforms with legacy on-premises ERP systems can result in additional customizations, higher costs, and more complex modernization initiatives.
- Old ERP systems with limited and complicated integrations and lots of customizations increase operational fragility and maintenance costs.
- Maintaining old, on-premises ERP systems will continue to generate ongoing security costs, which will only rise after the end-of-life 2027 deadline.
- Running older ERP systems risks diverging employee experiences, with existing employees potentially preferring legacy systems they are used to, while new employees perceive them in a more negative light.



# SAP ERP Systems Have Many Stakeholders Across an Organization. Building a Coalition Is Key to a Successful ERP Modernization



ERP systems are mission-critical to organizations, directly and indirectly touching many parts of their operations. As a result, there is a diverse array of influencers in ERP-related decisions.

While the overall direction is often set by the CEO and CIO, there are important ERP influencers across the C-Suite.

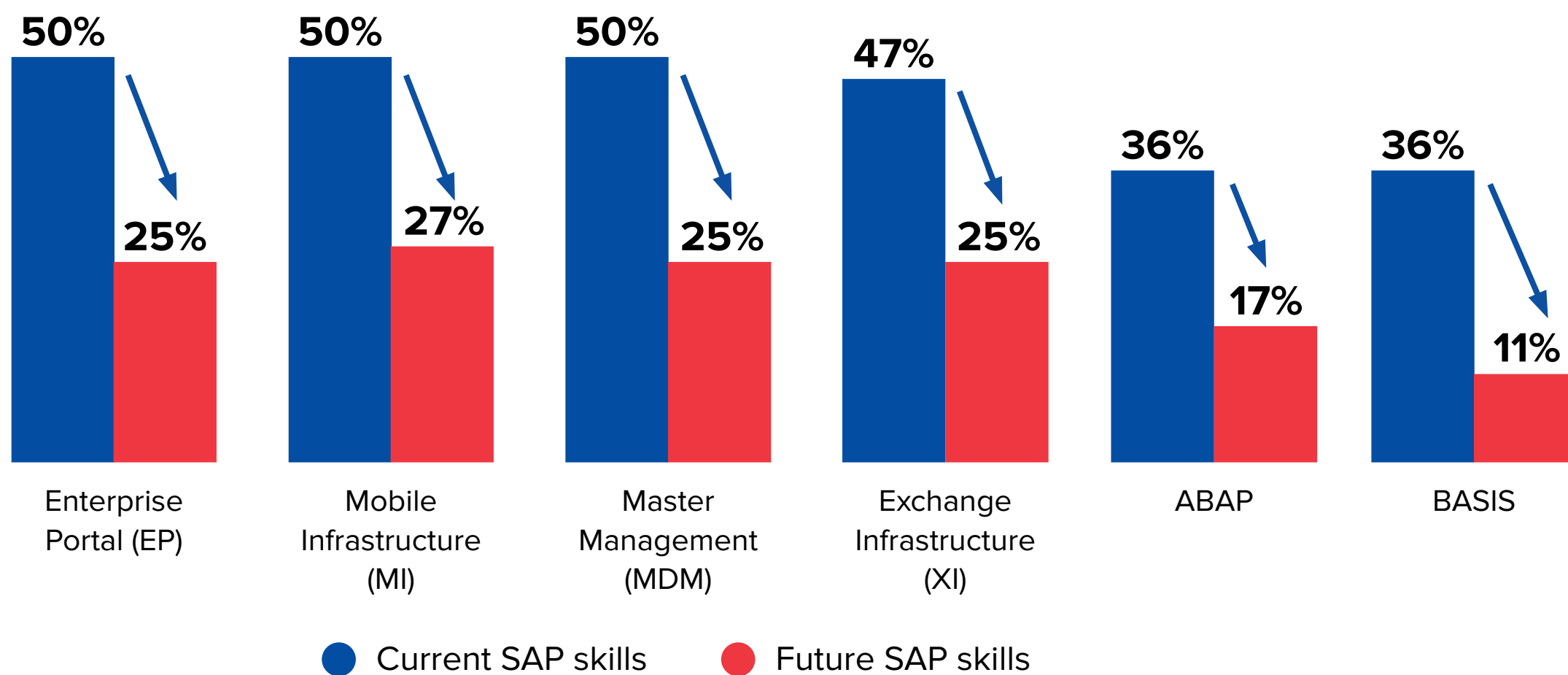
ERP modernization projects must have a compelling vision and fully address concerns around costs and risks. Involving the right stakeholders and building a coalition is essential when undertaking modernization to avoid compromises and unnecessary delays and costs.

**Ashok Patel, IDC**

# SAP ERP Customers Are Reducing In-House SAP Infrastructure Skills and Increasingly Rely on External Expertise

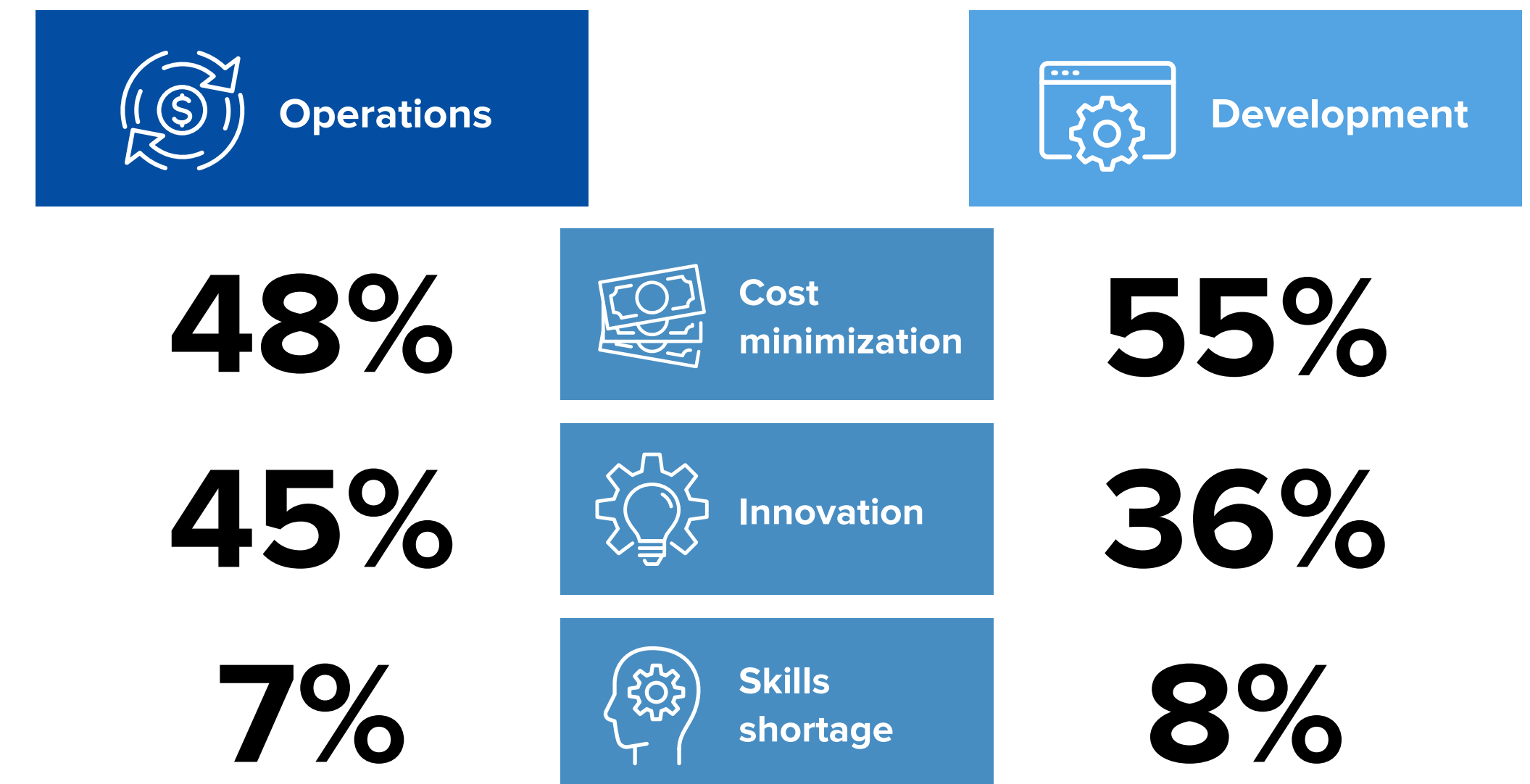
Q: What type of SAP skills does your organization have?

Q: Which of these skills does your organization plan to phase out?

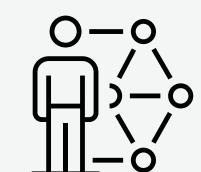


**Cost optimization and innovation** are the biggest drivers behind SAP customers' decision to rely on external expertise for their future SAP applications.

Q. Why rely more on external SAP skills over the next two years?



**BASIS** and **ABAP** will see the greatest reduction in in-house skills investment as SAP workloads move to the cloud.



The primary focus for new in-house SAP expertise investment is for **functional skills** rather than infrastructure and middleware capabilities.



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