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SAP and Cloud Computing

ITWS

The Future of ERP Application Solutions and SAP

Enterprise Resource Planning (shortened to ERP for convenience from here on out) is an excellent example of a few select markets that are making dramatic changes because of the application of cloud computing in today’s world. The change that ERP is making is the difference between operating the software provided on the customer’s own servers and operating the software on the ERP provider’s servers. This difference is something that is often highlighted when looking at the setup of a certain companies, most times the smaller to medium sized businesses opt for the hosted cloud computing ERP solution because it tends to be easier for smaller companies to be agile and to adapt quicker to more modern solutions. Whereas if the customer of the ERP is one that has been around for a few years to maybe a decade, then that company will generally opt for the plan that it has been using for the past years because it is hard to change the entire layout of a company’s internal software setup. So given that there are two different ways to provide these ERP solutions SAP in the near future, a timescale of about 3 years, will opt to operate both ends of the spectrum, a hosted option and a host-able option. Yet this solution that SAP will pursue will mean that it will not be a market share leader in the cloud computing for ERP applications market. This market will be dominated by new companies the likes of Salesforce and others that provide a few different solutions to the ERP setup, and are also fairly agile themselves so they can make quick decisions that many of their customers will want to make themselves.

So the first thing to examine is why SAP will proceed in both fields of the ERP market, the answer is obvious in that if SAP wants to expand its consumer base and therefore its profit then SAP needs to offer solutions to all kinds of companies in all different markets. The fact that SAP will opt for this is not also because of the fact that they want more profit but also because they don’t want to force their current customers into an entirely new way of operating their businesses, with two defined options for their customers they give the opportunity for their older and larger customers to continue with the setup they have currently and also they have the ability to offer the easier solution for smaller companies at the same time. An excellent example of this happening with another company is Netflix. Netflix a few years ago decided it wanted to split its operations into two different companies, one that offered rental physical media and the other that offered streaming content online to the customer. This proposed business plan stunned many of their customers because many of them wanted to have both options on their plan, to receive physical media but also be able to stream content without having to pay two separate companies to provide these services. So in the end Netflix decided to remain one company and provide the same plans to its customers. This is a cautionary tale to companies like SAP who will want to pursue both opportunities within the same market, ERP solutions, and not to decide to split into two separate entities in the process because that can cause customers to become annoyed with the product and change their provider of ERP applications. Another example of a company that conformed to a new solution or ideal that we have yet to see the full results of is Nokia. Nokia transformed from producing its own proprietary operating system on its phones to producing phones that only operate Microsoft’s Windows Phone operating system. This transformation of the company has had some good and bad results losing some of its previous customers and yet also adding several new customers. The key to this kind of switch between cloud based ERP and traditional ERP is making the change in small steps and keeping them either spate or easily transitional.

The second question that many may jump to ask about this decision is why SAP will not be a market-share leader. The answer is also again fairly simple to analyze. Since the late 90’s the focus of making companies has been on small and lightweight companies that offer solutions in the form of web applications or mobile applications. These companies despite their rapid growth remain small entities, many of them never achieve the scale on which companies like IBM, Cisco, or Microsoft. For these small companies the ERP solution will have to be one that is easily implemented, as it is with all companies, but also the ERP solution that is the easiest to setup and not need to worry about for the future of the company. This solution is offered mostly by companies like Salesforce, companies that are going through the same growth and development at the same time. This is apparent in almost all markets, and a classic example is that of Facebook and Myspace. Myspace in its day was one of the greatest developments of the early web, and it founded the idea of a true online social presence, yet Facebook utterly destroyed what Myspace had become mainly because Facebook offered something new, and something slightly different. The reason to why Facebook beat out Myspace is because Myspace became outdated quickly, more people want the new product over the old one. Another great example of this kind of economics is the development of the short period phone contract. In the early 2000’s the two year contract was a dominant force in when phones would arrive to the market because device OEM’s would partner with mobile carriers to produce new phones. Yet since at least 2010 and up to now that has begun to change to the shorter period of contracts and also a more rapid rollout of devices. Now companies like Apple and Samsung release a flagship device every year, and with this new yearly rollout mobile carriers have begun to change the way in which they provide service, offering plans for a year and even making monthly options more apparent to its customers.

To summarize this the future is fairly clear for SAP and its offerings to their customers, two independent solutions on either end of a spectrum of options for companies, giving the customer the choice of how they would like to setup their ERP applications or offering simple plans that range from full traditional ERP solutions to the new standard cloud computing variant. What SAP has to recognize is that the products it will offer are truly on a spectrum of choices, and it needs to continually offer these solutions that can vary from customer to customer, giving the option to the customer is perfect for SAP so that it can provide everything that the customer wants without overproviding for them. The spectrum is the highlight here, and it has to remain the highlight, many companies can decide what their customers want from their products but when it comes down to how a company should operate internally than it is the company’s choice on how it develops its internal software and setup.