



Managed SAP Hosting: Determining if it's right for your business

There's no question an SAP implementation is an expensive, complicated, labor intensive undertaking. That's just one reason organizations are turning to managed hosting providers to run their SAP systems for them.

But while managed hosting eliminates many of the headaches associated with an SAP roll out, there are some critical questions business and IT professionals must ask themselves before they embark on a managed hosting project. Is managed hosting right for my company in the first place? What do I look for in a provider besides price? What should be negotiated into the service level agreement?

In this e-guide, experts share their advice on the things that can make or break a project. Readers will discover what the current market for managed hosting is like, what to include in an SLA, and the key considerations when selecting a hosted provider.

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Navigating a host of SAP hosts

By Jon Franke, News Editor and Barney Beal, News Director

A lack of SAP skills worldwide, economic pressures, and a focus on the midmarket have resulted in recent years in a surge in providers of SAP managed hosting.

"There is certainly an interest from the vendor community in offering SAP managed hosting," said John Madden, research director at Ovum, a London-based research firm. "Just in the past six months to a year, you've had a lot of vendors like Accenture, IBM and HP not only ramp up SAP skills for packaged implementations but talk about what they can do for hosted SAP. There's a real shortage of SAP skills out there. That just goes along with the global IT shortage, and vendors are presenting managed hosting as an option."

That's good news for customers. Now, in addition to being able to choose between managing SAP in-house and turning to a hosting provider, there are plenty of options when it comes to selecting that provider.

"Customers have a lot more choice than they ever had before, so they can be more discriminating with who they work with," Madden said. "IT dollars are scarcer than ever, so they have more choice about how they spend them -- what partner understands my business, my industry, my region, the products I sell."

The major ERP players have, however, been prone to fits and starts when it comes to truly embracing managed ERP hosting, according to Bill Martorelli, a principal analyst with Cambridge, Mass.-based Forrester Research Inc., because hosted software's "pay as you go" model conflicts somewhat with a "license revenue at all costs" approach. "It's been a long time since Oracle and SAP have been active in the area," Martorelli said.

Other vendors are eager to fill that gap, according to Madden, who covers services for Ovum. The recent spike in customer interest in managed hosting is partly a result of vendors' marketing their abilities and investments in SAP skills, but there are other drivers. Given the current climate, companies are more concerned with finding cost efficiencies, Madden said, and turning to someone else for SAP expertise is an attractive option.

Martorelli agrees that there is no shortage of SAP hosting providers in the market, despite quite a bit of market consolidation. He pointed to IBM, which acquired Corio; Affiliated Computer Systems, which acquired Blue Star Solutions; AT&T, which bought USinternetworking; Capgemini, which purchased Kanbay; and Freudenberg as some of the leaders in the space.

Meanwhile, after years of hedging, SAP itself has embraced Software as a Service (SaaS). Business ByDesign, SAP's latest hosted offering, is aimed at midmarket companies, a sweet spot for managed hosting. In recent years, the market has gone back and forth about whether big companies would adopt the hosted model in greater numbers, according to Martorelli. But right now, managed SAP hosting is primarily attractive to midmarket companies -- which he described broadly as companies with anywhere from \$200 million to \$2 billion in revenue.

"Certainly, SAP has put a lot of investment and priority in [SaaS]," Madden said. "They would clearly tell you that no one knows SAP processes better than they do. Especially for midmarket clients, they see an opportunity to expand their reach. The thinking now is that even though you have SAP and plenty of others in this space, there's a lot of market for everybody."

Managed SAP hosting can be attractive for midmarket companies for a variety of reasons, starting with the relative ease of installation and maintenance, Martorelli explained.

By its nature, managed SAP hosting doesn't fit one vertical better than others, he said, although high-tech companies, thanks to their general comfort with new technologies, do seem more amenable to the hosted option.

There is also developing demand around integration requirements, Martorelli said. With many companies using a hosted model for customer relationship management (CRM) and supplier relationship management (SRM), for example, there is a question of where the integration will come from.

"It's sort of at the crossroads now because CRM needs ERP," he explained. "The rubber is really hitting the road now, and it's become a major issue."

For example, the explosive growth of Salesforce.com has forced many to integrate their hosted CRM with their ERP system. Add in the platform wars between Oracle's Fusion and SAP NetWeaver, and integration is becoming a bigger business, according to Martorelli.

"There is an emerging ecosystem that is starting to cater to these integration requirements," he said. "Systems integrators are starting to focus on this requirement, and there are a number of different players that may yet be heard from in that regard."

No matter the deployment model, SAP is expanding its customer base and its application.

"It's a win for SAP either way, whether it's delivered through third party or not," Madden said. "It dovetails in the sense that one of the underlying components of NetWeaver and SOA in general is that you break up this functionality and deliver it as a service wherever and whenever you need it, which is a central tenet of managed hosting."



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Creating an SAP managed hosting checklist and checking it twice

By Jon Franke, News Editor

Many companies considering hosted SAP services assume that the procurement process and key considerations are the same as buying regular software. They're not, according to one analyst.

Buying SAP software using a managed services model involves a different relationship with the provider and different contractual arrangements. All of these require different procurement considerations and different ways of calculating return on investment (ROI), according to Bill Martorelli, a principal analyst with Cambridge, Mass.-based Forrester Research.

"It's not night and day," he said, "but there are special aspects of managed services procurement that aren't necessarily part of software procurement."

First, companies considering SAP managed hosting have to remember that this will be an ongoing relationship, involving more than simply buying software. So, in addition to the typical technical requirements, customers should find a company they trust and feel they can work with, Martorelli explained.

A request for proposals (RFP) for ERP managed hosting should therefore address issues such as how problems will be escalated to the provider and eventually resolved in a timely fashion, disaster recovery plans, and uptime requirements.

And remember, a reputable partner for the implementation and the actual hosting may not be the same company.

"There are synergies that would make it beneficial to use the same company," Martorelli said. "But it's not a hard-and-fast rule."

To help develop these requirements, it is critical to have IT involved from the get-go. This is somewhat different from buying other hosted software such as CRM or HR, where the business side sometimes chooses the hosted route to circumvent IT, according to Martorelli.

"A lot of CRM has been bought by the business, and that's fine," he said. "But for ERP, it just doesn't make sense."

Consider customization

Another important aspect to take into account when considering hosted SAP is the level of customization required, Martorelli said. The hosted model tends to work better with implementations that don't require excessive customization.

"It's not like you can't get customization, or there's not an implementation cycle [with hosted SAP software],

because there is," he said. "But it does correlate with a more straightforward, more vanilla, less customized implementation."

As companies increasingly choose hosted software options in other areas of the business, integrating with hosted SAP ERP is a key consideration. That is above and beyond integrating hosted software with any on-premise systems.

"Take a look at integration requirements," Martorelli said. "If you want to integrate with other systems, you have to think about the level of integration you want and need -- certainly not all [integration has to] be real time, some can be batch, which makes things substantially easier."

Martorelli suggests that potential customers ask themselves:

- Do you want to build and maintain application-level interfaces? This can be complex and difficult.
- Are you willing to leverage everything into the provider's SAP environment and SAP-based database?
- Do you want to use a separate database as a vehicle for integration?
- Do you want data to reside solely at the vendor's location or do you want to have it off-loaded and shipped back to your site?

Not the traditional ROI case

Traditionally, companies have embraced hosted ERP for a number of reasons, and cost is not necessarily the most important, according to Martorelli. Many are looking at speed or ease of implementation. For example, a company that has pressing regulatory compliance needs or is facing a business deadline, such as getting acquired units onto a company standard, will turn to managed hosting.

"I'm not sure the cost savings part of ROI has been the driving factor to go down this path," Martorelli said. "There are many ways you can calculate ROI. More typically, what we have seen is that the decision is based on how quickly customers can get the system in place."

Another possible reason is a relative lack of IT resources – for instance, a company that is trying to implement SAP at a location without a sufficient IT presence.

Companies also recognize that on-premise software not only requires IT but can involve other costs, such as building and maintaining infrastructure.

"When implementing SAP, not only do [customers] have to worry about the software but also about potentially hiring additional staff, building infrastructure -- any number of things," Martorelli said. "People say: 'Maybe if I go down the managed services path, I might not save money over a long period of time, but at least I avoid that initial upfront capital expense and the recurring expense that may happen at upgrade time.' "

SAP managed hosting requires rock-solid SLAs

By Mark Brunelli, News Editor

Companies interested in SAP ERP managed hosting services may have a great relationship with the enterprise resource planning (ERP) giant or a third-party hosting provider, but it's important to remember that a handshake is no substitute for a bulletproof service-level agreement (SLA), according to experts.

SLAs -- legal contracts that spell out exactly what services the software vendor will provide in measurable terms -- offer software buyers more than just peace of mind. Experts say they can actually save customers money when the time comes to renegotiate -- particularly if the vendor came up short at any time on its end of the managed hosting bargain.

"It's important that executives keep [any SLA breaches] documented, because you're going to renegotiate a contract with them every so often," said Cal Braunstein, chairman, CEO and executive director of research with the Robert Frances Group, a Westport, Conn.-based IT consultancy. "You want to be able to bring that [documentation] back and either ask for reduced prices or credits for failures during the last period."

When negotiating a managed hosting SLA, or any SLA for that matter, buyers should be very specific about the response times that are expected when problems pop up, Braunstein said. And those response times should be based on the severity of the issue.

For example, he said, should the ERP system go down and become unusable, that would be considered severity-level one, and buyers should stipulate that in the case of a severity-one event, the vendor will respond and have the problem fixed within 30 minutes.

"On the other hand, if it's a documentation error that is annoying but doesn't hurt anybody, maybe you're willing to wait a few days or until the next release," Braunstein said. "So, with severity types, you have to make sure the SLA addresses the initial response period, the commitment to when they're going to try and get you a patch or final result, as well as an escalation process for each of those."

It's especially important to be very specific about the escalation process. Braunstein said that means listing in the SLA the exact names and phone numbers of personnel to call when trouble arises.

Finally, he said, make sure the SLA stipulates what will happen in the event that the managed hosting team fails to perform to expectations.

"If you document that and you bring it to the table and you put it into the contracts, then the discussion focuses on real, measurable elements that people can talk about," he said.

Like traditional hosted offerings, managed hosting programs let users deploy their SAP ERP application at an off-site facility. But unlike traditional hosted offerings, the vendor handles all of the infrastructure management, including hardware and software configuration management, change management, bug testing and environment optimization.

According to the experts, managed hosting is right for companies that want to outsource a portion of their IT operations and instead focus on core competencies.

"Instead of your having to deal with managing the infrastructure, they do it for you," said Ray Wang, a business applications analyst with Cambridge, Mass.-based Forrester Research Inc. "Some organizations don't want to deal with infrastructure, support desk, and figuring out how to tune the applications."

Don't overpay for that managed hosting SLA

While solid SLAs offer the potential to save money on managed hosting services at renegotiation time, they can also lead to wasted funds if buyers aren't careful.

"I think the most important thing is not to overpay for a service-level agreement that doesn't really meet your usage requirements," Wang said. "A lot of people tend to overbuy what they really need, out of fear or out of insurance."

To avoid overpaying, buyers of managed hosting services should first conduct an internal analysis to come up with -- at the very least -- an estimation of how much uptime is needed, Wang said. Then go into the contract negotiation armed with that information.

"You need to figure out what level of service is appropriate for you," the analyst explained. "You also need to have clauses in the contract that allow you to flex up or flex down as you start realizing what your actual usage is going to be like."

In the end, it comes down to the fact that companies buying managed hosting services need to know themselves before they can get the best deal.

"It's important to find that right balance so you can make changes across the years," Wang said. "Try to get some granularity in [the SLA]."

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Freudenberg IT operates its data centers worldwide across all time zones using the FIT Dual Data Center and FIT Data Center Cluster concept. All data is mirrored into different data centers, ensuring that data storage and data backup are spatially separated. Using this concept, Freudenberg IT over fulfills SAP's standards for international SAP hosting and worldwide data center operations. An important part of the certified service package is the global integration of the FIT Customer Support Center organization, which is available around the clock to answer questions in a variety of languages on processes, applications and system operation. The service delivery processes and management services follow ITIL/ITSM and SAS 70 Type II specifications. On this basis, all SAP applications and IT infrastructure at all data centers in Europe, North America and Asia are maintained in a secure, uniform and highly available manner.