

Riding the Wave: Navigating the SAP S/4HANA Upgrade and Implementation Boom

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SAP has announced extended mainstream support will increase from five to seven years with the 2023 release of SAP S/4HANA. Offering managers need to prepare for the likely “project wave” of implementations and upgrades as companies rush to take advantage of the new version features and capabilities.

Overview

Key Findings

- End of mainstream maintenance for SAP’s S/4HANA versions 1709, 1809 and 1909 was planned for the end of 2022, 2023 and 2024, respectively. SAP announced that it will allow extended maintenance through 2025 (at an additional fee of 4%), weakening the business justification for customers to upgrade in the original time frame. Most of these customers will wait and upgrade by 2025, creating a “project wave” of implementations and upgrades.
- SAP will change to a two-year release cycle and expand maintenance availability for SAP S/4HANA from five to seven years, with the 2023 version of SAP S/4HANA due to be released at the end of 2023. New and existing legacy SAP Business Suite customers or SAP S/4HANA customers on previous releases are targeting the 2023 version to minimize the impact of regular upgrades.

Recommendations

Offering managers in charge of SAP S/4HANA services seeking to evolve and manage their offering in line with announced maintenance changes must:

- Prepare for the project wave, focusing on reducing the timing and use of resources for S/4HANA upgrades by building or partnering for tools and accelerators.

- Anticipate and create client demand by engaging with SAP legacy and SAP S/4HANA clients to forecast the resources' and tools' impact and timing of the implementation and upgrades.

Analysis

The SAP S/4HANA service market has been robust in the past years, with revenue growing in double digits. Gartner estimates that, in the past two years, between 1,800 and 2,700 projects ran each quarter. The planned release of the new version of SAP S/4HANA in late 2023 will be the first to have seven years of mainstream maintenance. There will likely be a significant increase in the number of organizations looking to upgrade to this version of the software, especially large enterprises that run multiyear projects and were challenged when required to upgrade their ERP system every five years.

In addition:

- SAP's announcement to offer extended maintenance as an option for SAP S/4HANA versions 1709, 1809 and 1909 through 2025 (at a fee of 4% on core S/4HANA material codes) will also incentivize customers to plan migration when the 2023 version becomes available.
- This will result in a wave of implementation and upgrade projects as companies rush to take advantage of the new features and capabilities offered by the latest version.
- The combination of these projects with the still existing SAP S/4HANA implementation demand will likely involve a significant amount of planning and resources, including the need for experienced SAP consultants and project managers to guide the process.

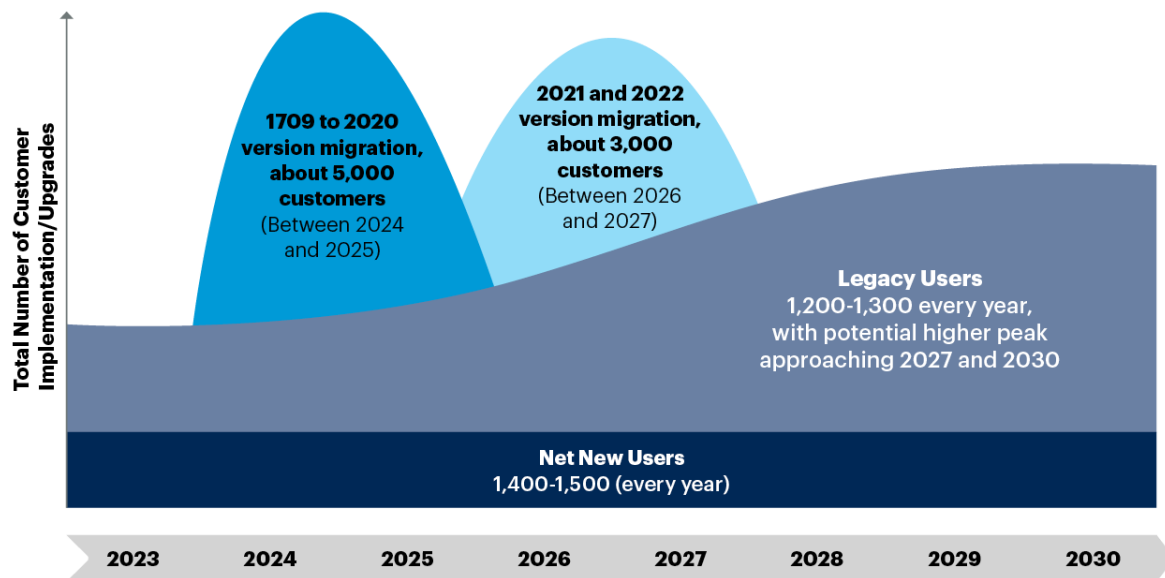
- The SAP S/4HANA market, which managed to run a maximum of 2,700 projects in a quarter, will be impacted by a much larger wave of projects, driven by:
 - Several customers are migrating from versions 1709, 1809, 1909 and 2020 to version 2023, all to be completed by the end of 2025, to avoid running an unsupported version. Gartner estimates that 10,000 customers implemented these versions, of which at least 5,000 customers will elect to migrate to version 2023.
 - 1,200 to 1,300 legacy SAP Business Suite customers each year
 - 1,400 to 1,500 net new SAP S/4HANA customers per year
 - 3,000 customers that will need to upgrade their version by the end of 2026 and 2027 (SAP S/4HANA version 2021 and 2022, respectively)

Figure 1 shows how these different use cases will overlap.

Figure 1: Different Customer Categories Implementing or Upgrading SAP S/4HANA

Different Customer Categories Implementing or Upgrading SAP S/4HANA

Illustrative



Source: Gartner
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This estimation shows that, in 2024 and 2025, there will be potentially more than 10,000 customers migrating or upgrading to a newer SAP S/4HANA version, in addition to the customers already running multiyear projects.

This migration will potentially cause issues to service providers if the surge in demand is not properly managed and coordinated. Service providers may not have the resources or capacity to handle the increased demand, which can lead to delays, longer wait times, and other issues that can negatively impact the customer experience, client revenue and capability to meet transformation objectives.

Gartner estimates that, even in times of economic uncertainty, the demand will not slow. Existing legacy SAP Business Suite 7 customers are looking to avoid the 2% software maintenance premium for extended maintenance offered from 2028 through 2030 for that solution. Furthermore, running an unsupported version opens up multiple risks in terms of security, legal compliance and higher costs for specialized skill sets for maintenance or sustaining support. This last point applies also to existing SAP S/4HANA clients, in which the mainstream maintenance expires after five or seven years.

Invest in Assets and Tools to Facilitate S/4HANA Upgrade

While upgrading from an older SAP S/4HANA version to a newer one should be simpler than a new implementation, there are always challenges to consider, including:

- Compatibility issues (eventual custom code, interfaces and integrations)
- Object migration (decisions related to structures, processes and data objects, along with how to migrate them)
- Data migration (duplicates, and missing and noncompliant data)
- Data transformation
- Testing, training and change management (especially if the upgrade includes the use of new or replaced functionality or update to business processes)

The complexity, the required amount of time and resources, and the monetary and personnel costs, vary from client to client.

Service providers need to invest in tools and assets to automate to the maximum extent all the different phases of the upgrade process, from impact analysis and preparation to deployment.

Examples of tools in this area would be:

- To analyze fit to standard and gaps between current and new version
- To migrate configuration and data from system to system
- To analyze business process configuration and impact in the new version

On top of SAP solutions, multiple tools in the market, like JIVS, Panaya, r4apps, SNP, Syniti and, Tricentis, can address some of the above challenges. Service providers can partner with one or more of these tools, or can complement and enhance them to accelerate and automate every stage of the S/4HANA migration process. These tools have been able to reduce project time up to 70%.

The tools can allow service providers to reduce the number of resources needed in an engagement, improve timing for deployment and, consequently, improve the ability to serve more customers, increasing revenue.

Some service providers have invested in migration factories (see Note 1) to facilitate the migration of the legacy SAP Business Suite to SAP S/4HANA. The same factories should be used to tackle the SAP S/4HANA upgrade to newer versions.

Finally, creating T-shirt size pricing and packages to migrate from one SAP S/4HANA version to another will also facilitate the discussion with the clients, and improve resource planning.

Elements that clients will need include:

- Functional scope
- Number of custom objects
- System size
- Number of landscapes
- Number of systems and interfaces
- Duration
- Pricing

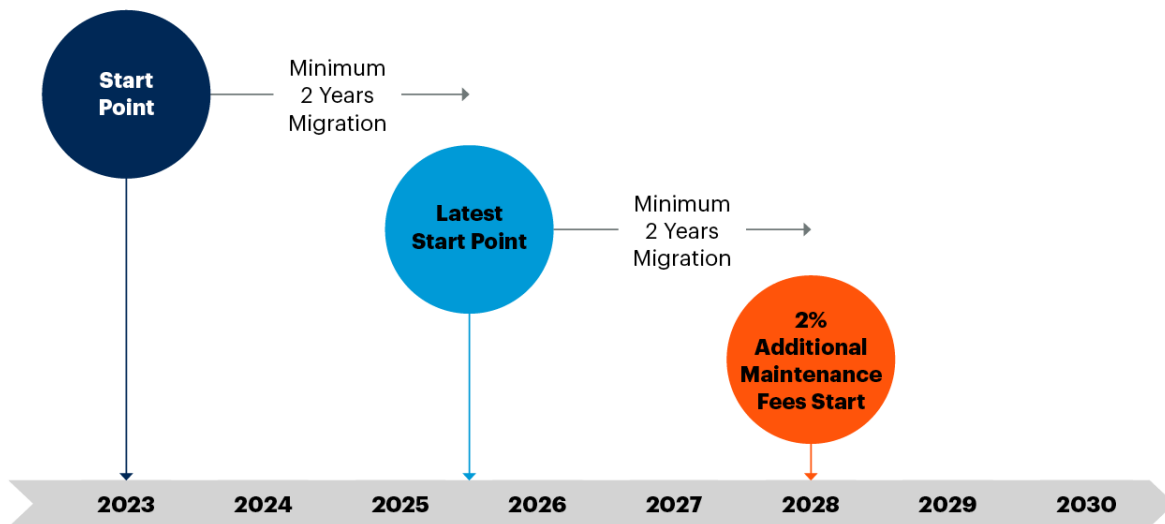
Engage With Existing Clients and SAP Upfront

Most service providers have a portfolio of existing SAP Business Suite clients that need to migrate to SAP S/4HANA by 2027 or 2030 and SAP S/4HANA clients running a version that will need to upgrade in 2024, 2025 or later. Proactively engage with those customers to discuss their intention and rationale for the upgrade, and highlight upfront the potential challenges for the migration and required time and resources. Providing a free or sample assessment will highlight the big gaps between versions, create a lower path of resistance, support the client business case and help the service providers to anticipate demand.

Some of these implementations are complex, and projects can last multiple years. 2025 will likely be the latest start point for organizations that want to perform a functional/business migration from SAP Business Suite 7 to SAP S/4HANA, while avoiding the 2% software maintenance premium for SAP Business Suite 7 from 2028 onward (see Figure 2).

Figure 2: Timeline for S/4HANA Migration From SAP Business Suite 7

Timeline for S/4HANA Migration From SAP Business Suite 7



Source: Gartner
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With SAP S/4HANA, a large organization that will start a five-year long migration project today, and will go live by end of 2027, will probably be able to implement version 2023 or 2025. In the first case, within three years, the client would have to upgrade to a newer version to stay on mainstream maintenance. In the second case, this will need to happen within five years. Clients will have to embrace a more regular update cycle, and service providers will need to support these upgrade activities, making the transition easier and quicker, or risking losing the customer to a competitor.

At the same time, strict collaboration with SAP product development/management is key to anticipate potential software changes and product capabilities. This collaboration would help service providers to anticipate product changes, embed them in their assets and tools, and upskill resources to cater updated functionality and features.

Note 1: SAP Migration Factories

SAP migration factories have been created by multiple suppliers to help companies need to shift from legacy ERP Central Component (ECC) to SAP S/4HANA. These factories use a standardized approach and industry best practices, in conjunction with tools, to quickly migrate legacy systems to SAP S/4HANA. See the following for examples of migration factory solutions:

- [Accelerate Your Move to SAP S/4HANA](#)
- [Capgemini's Accelerated Migration Factory Boosts SAP S/4HANA](#)
- [Considering a Move to S/4HANA? Think Conversion](#)
- [SAP Migration Factory](#)
- [Techedge SAP Migration Factory, for a Simplified Journey to the Cloud](#)
- [Make Your SAP S/4HANA Migration Project a Success With the Qualified Move to S/4HANA Offer](#)

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