SPINNAKER SUPPORT

The SAP and Oracle Cloud

A Market Report & Strategy Framework

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PROPRIETARY

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1.1 CLOUD COMPUTING OVERVIEW

If we look back in IT history, there have been models that can be compared to cloud computing, but to set them on an equal level as we see cloud computing today, would be false. As we understand it today, cloud computing is not just the Internet and a bunch of connected devices. In its basic concept, cloud computing implies sharing computing resources such as processor time, storage, applications, databases, infrastructure, and services that are acquired in the same way we acquire any service. In the perfect world these resources will scale dynamically with increasing or decreasing demand.

Cloud computing has certainly benefited many enterprises by reducing costs and allowing them to concentrate on their core business competence rather than IT and infrastructure issues. But, for all the hype, there are traditional disadvantages of Cloud Computing: downtime, data security and privacy, latency, general threat vulnerability, control and flexibility, and vendor lock-in. With the exception of "lock-in", solution providers are continuously striving to eliminate these downsides.

Nonetheless, the environment has immense potential for many business models and customer demand for enterprise level solutions that are affordable, simple, and scalable is driving traditional software vendors to respond. As such, the adoption of all forms of cloud services is accelerating as businesses strive to reap the promised benefits of the cloud computing model. Originally fueled by the successes of natively developed cloud products and services from companies such as Saleforce.com, NetSuite, Workday, Amazon, and Google, analysts agree that what was once a fragmented provider space is evolving in an emerging trend toward a third wave of innovation, SaaS Integrated Platforms, where SaaS moves beyond standalone applications to become a comprehensive solutions suite.

As a result, analysts predict the market for all public cloud services in 2016 will grow 16.5% to $204 billion, reaching $65 billion for SaaS, PaaS, IaaS related services as traditional software vendors shift their business models from on-premises to cloud based offerings. As platforms mature and the economies of scale continue to grow, costs will continue to fall and reliability and security standards will improve.

1.2 SAP AND ORACLE MARKET RESPONSE

SAP and Oracle have long dominated the tier 1 on premise enterprise application market. Their transition to the cloud computing model radically shifts their income structure and profit impact versus their traditional lines of business. Today, both companies speak of always being on the bleeding edge of modern era cloud innovation. In truth, both did speak to the trend as early as 2008, but were late adopters at best. Salesforce. com and Workday, arguably the biggest early threats to core SAP and Oracle business applications suites, launched in 1999 and 2006 respectively. In 2012 Larry Ellison was still commenting on the cloud as nothing more than a marketing ploy. To give SAP credit, then co-CEO Jim Hagemann-Snabe state publicly in 2012 that he saw the cloud as the wave of the future. "In five years, everything will be in the cloud."

1.2.1 VENDOR "ALL IN" STRATEGY

Near term, SAP and Oracle realized they needed to respond to market demand, but were behind, so adopted an, "if you can't beat them, buy them" strategy. Both companies were certainly well aware of the treats posed by the likes of Salesforce.com, Workday, Amazon and the plethora of native cloud companies flourishing by 2012, so they bought time . . . and cloud companies. Transitioning existing software and technologies to products and services designed for the cloud would take years. To stave off competition and increase their cloud development clock speed each augmented organic development efforts with aggressive acquisition strategies encompassing the application, platform and infrastructure solution layers. Since 2012 the two have collectively acquired more than 35 best-in-class companies with cloud enabled or enablement solutions, spending in excess of $30 billion in the process.

Long term, each company's strategy is to maintain market dominance in the enterprise application segment by creating SaaS Integrated Platforms (e.g. Hana, Oracle Cloud). Both describe their current product development cycle as hyper-innovative, delivering next-generation solutions that unify flexible cloud infrastructure, powerful standards-based platforms, and a comprehensive suite of business applications.

1.2.2 VENDOR ROADMAPS

SAP and Oracle have created similar messaging regarding their roadmaps to the cloud. Their promise, "Gain all the benefits of the cloud – including lower IT costs, increased business agility, less complexity, and greater flexibility – without sacrificing security or ceding control of your data," says Oracle. The company uses terms like modern, complete, adaptable, integrated and secure. SAP promises elasticity, affordability, availability, and simplicity. Both suggests the benefits can be realized today. SAP and Oracle state that their "promise" can be realized today but understand their respective customers, particularly large enterprises, have made significant investments in current on-premise software and that the cloud adoption horizon for many will be extended. The primarily cause for this delay is application solution maturity and the high cost of platform migration as a result of customization, integration and business process complexity (although each vendor states that their SaaS integrated platforms delivers simple solutions to these barriers to early adoption). In an effort to protect their flank from competition while fighting the battle to lock-in customers to the long term vision, SAP and Oracle lay out three distinct paths to the cloud:

- **Maintain Current On-premise Solutions** – keep implemented solutions on the latest releases (software and technology) to enable an easy transition to the cloud at the appropriate time. Both companies underpin their commitment to this path by extending support services availability through the mid 2020's.

- **Migrate Now** – SAP and Oracle recommend that the natural path is the transition to fully enabled cloud ERP platforms (e.g. Business Suite 4 and Fusion) that can exist in an on-premise, cloud state, or both. They intimate that both solution platforms are fundamentally "complete" and the tools, technologies, and strategies are in place to simplify the migration effort even in the most complex enterprise; and hyperinnovation will drive increased value to early adopters.

- **Hybrid** – for companies that perceive a full migration will introduce too much risk, the vendors recommend a hybrid approach. They suggest moving a business function (HCM, Finance, Procurement, PLM) or technology layer (database, mobility, infrastructure) as the first step on the path to cloud.

1.2.3 VENDOR STRATEGY ASSESSMENT

An objective assessment of the vendors' cloud strategy is that the vision of SaaS Integrated Platforms is transformational - lower IT costs and increased agility is badly needed in the enterprise application space. The "promise" that their respective cloud integrated platforms have reached a state of maturity that deliver the benefits of this transformational technology is absurd. Each distinct path defined by the vendors is disruptive and none deliver transformational benefits.

- **Maintain Current On-premise Solutions** – the nuance in this path is "maintain currency." This process alone is disruptive, requiring significant time and effort (money). In ERP, implementing enhancement packs, support packs, patches, updates, etc., is consuming and delivers little innovation. To keep one locked-in, the vendors will push currency. What is unsaid by the vendors but not missed by industry observers is the unstated economic reality that as SAP and Oracle continue to invest billions in hyper-innovative cloud solutions, the pace of sustaining innovations (making a good product even better) in traditional on-premise software must diminish. This reality is what causes most companies to stay put on the current release and only apply updates when real value is delivered. The primary benefit of this path over the others is less disruption.

- **Migrate Now** – Whether it be to a fully cloud enabled on-premise solution or its SaaS based twin, this path leads to the greatest disruption. The on-premise alternative represents a significant technology migration which is fraught with all the trappings of any enterprise application implementation; after all, cloud enabled ERP is still ERP. With cloud, you don't have to install servers and software, but implementation remains a significant undertaking. An enterprise application migration to a cloud takes the same resources and time as a result of system customization approaches, and arguably introduces more change management effort. Because enterprise SaaS Integrated Platform solutions are not mature the real downside of the full cloud migration is hyper or disruptive-innovation which will place the enterprise into a constant state of change.

- **Hybrid** – Hardly easy but a smart compromise. It is certainly a viable approach when leveraging past investments in one's current on-premise technologies, allowing one to resist lock-in by considering best-ofbreed solutions outside of the vendor's portfolio. And while an on-premise/cloud hybrid strategy is best supported within a vendor's cloud enabled on-premise environment, a major technology migration, the change in SaaS licensing structure does provide an opportunity to minimize vendor lock-in.

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A SMARTER PATH TO THE CLOUD

Spinnaker Support does believe that the promise of SaaS Integrated Cloud Platforms presents immense potential for businesses requiring enterprise level solutions that are affordable, simple, and scalable. If this potential is proven, we believe the near total adoption of cloud solution for the enterprise is inevitable. This being said, "onpremises computing is not going to vanish. Even if on-premises computing eventually becomes a smaller piece of the pie than cloud computing, there's going to be a long period of transition," Larry Ellison, Oracle OpenWorld 2015.

Spinnaker Support believes the question is not "if" cloud computing will become a larger piece of the pie but rather, "when". When will cloud functionality, configurability, and standards reach congruency with on-premise software? When will the license models offered by the marke's top tier providers deliver on their promise of elasticity and scalability?

With SAP and Oracle extending support availability on current ERP technologies to more or less 2025, it is a fair supposition that each company's transition from an on-premise license model to the SaaS license model will not near completion until that time. Both understand that widespread adoption will not occur until the "promises" of SaaS are fulfilled although SAP and Oracle are already aggressively pushing their clients down the path of disruptive innovation - this push will be reinforced by each vendor's partner ecosphere which benefits greatly from the disruption.

Spinnaker Support believes the cloud "promise" will be realized when solution maturity is congruent with today's technologies and that the point of congruency will be unique to each enterprise. Current SaaS Integrated Platforms do not meet the minimum requirements of companies running tier 1 business applications and as such, early adopters will face significant costs to manage the disruptive changes. The most viable path is hybrid, where companies select proven cloud technologies, be it SaaS, PaaS, IaaS, or DbaaS, that deliver business value (congruency) within a narrowly define business process or technology.
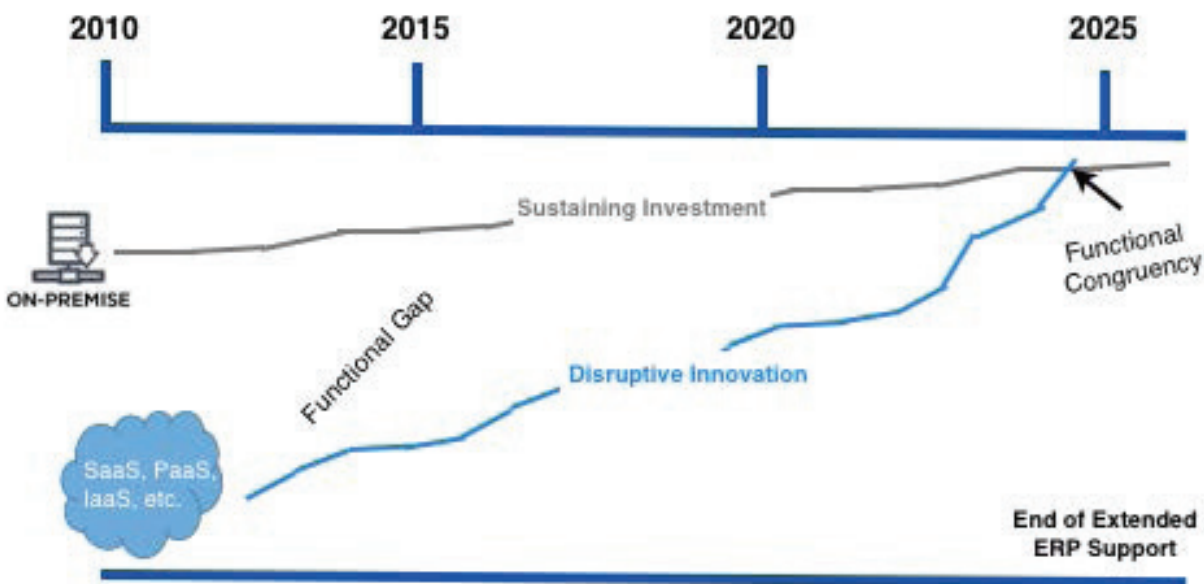
A SMARTER PATH TO THE CLOUD - continued

As such, we recommend the following steps:

- **Create a Roadmap** – "Begin with the end in mind," Stephen Covey. Work with a trusted advisor to map your functional and technical requirements against the current vendor's product availability roadmap. Assess best-of-breed alternatives in the process. Avoid vendor lock-in and absolutely do not buy "futures" (products you cannot fully utilize in the short term).

- **Understand Cloud Licensing** - Cloud licensing models vary greatly by vendor and technology:
    a. Subscription based or pay-as-you-go (elastic), annual or multi-year – are there escalators
    b. User types – professional, developer, self-service, direct, indirect
    c. Per-user (concurrent or total), per-device, processor based, enterprise (scalable)
    d. BYOSL (bring your own software license) or do you get trade-in credit

- **Define your asset management strategy** - Complexities related to optimizing management of both onpremise and in-the-cloud software licenses may require software asset management (SAM) processes and tools that track and automatically apply license entitlements. Consider the cost of acquiring and managing such tools.

- **Investigate the Implementation Process** – As we said, cloud ERP is still ERP and the process and cost to implement and manage change represent similar effort, particularly in a hybrid environment.

- **Develop a Funding Plan** – The point of functional congruency between on-premise and cloud solutions will be unique to each enterprise. Whether one determines that an early, staged, or late adopter path to the cloud is right, the cost to acquire, implement and maintain these technologies will not be small.

Industry observers correctly state that the pace of sustaining innovations in traditional on-premise software will diminish as SAP and Oracle invest in their cloud visions. Spinnaker Support recommends that its third-party maintenance services as a viable alternative to on-premise software support that delivers superior service at a fraction of the cost.

Fund the Innovation with 3PM

ORACLE

Category	Year 1	Year 2	Year 3	Year 4	Year 5
Annual Maintenance Fees	$2,200,000	$2,266,000	$2,333,980	$2,403,999	$2,476,119
Disruptive Costs	$110,000	$113,300	$116,699	$120,200	$123,806
				Cummulative Cost	$12,264,104

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Category	Year 1	Year 2	Year 3	Year 4	Year 5
Annual Maintenance Fees	$880,000	$880,000	$880,000	$880,000	$880,000
Disruptive Costs	$0	$0	$0	$0	$0
				Cummulative Cost	$4,400,000

	Year 1	Year 2	Year 3	Year 4	Year 5
Annual $ Savings	$ 1,320,000	$ 1,386,000	$ 1,453,980	$ 1,523,999	$ 1,596,119
Innovation Fund	$1,320,000	$2,706,000	$4,159,980	$5,683,979	$7,280,099

CONCLUSION

Third-party support drives substantial direct savings, averaging 62% from Oracle and SAP support fees. Spinnaker Support uniquely rationalizes unused licenses and/or shelfware to help drive this discount. Savings should be invested towards innovation, such as helping to fund an organization's migration to the cloud. Leverage third-party software support and maintenance. Take a maintenance vacation to fund your cloud vision!