

Enterprises in the Asia/Pacific region are accelerating application modernization initiatives to overcome the stumbling block that legacy applications present in their digital transformation ambitions, especially as they turn to new ways of working and serving customers remotely in the new normal.

# Pathways to SAP Application Modernization and Business Transformation

April 2022

**Written by:** Rijo George Thomas, Research Manager, IDC Asia/Pacific Software and Services

## Introduction

*This report presents key takeaways from an exclusive digital roundtable hosted by IDC, focusing on strategies and approaches organizations can use to accelerate business value by modernizing their legacy SAP applications for a cloud environment.*

The audience, from Australia, New Zealand, and Southeast Asia, included business and IT leaders from across a wide spectrum of industry verticals. They shared their perspectives on the key drivers for modernizing legacy applications and leveraging the cloud as a foundation for running their SAP S/4 HANA investments. Key stakeholders from DXC Technology and Google Cloud Platform described their experiences with helping their customers create intelligent enterprises with SAP S/4 HANA as the transformation core and cloud as the underlying infrastructure.

## Key discussions on enterprise transformation

The session focused on a few key themes, each of which resulted in conversations around topics of relevance to SAP S/4 HANA-enabled enterprise transformation:

- » What are the drivers prompting enterprises to kick-start application modernization initiatives, and what are some of the key benefits in the short and long term?
- » How are enterprises approaching SAP modernization, given the different pathways available for on-prem and cloud deployments?

## AT A GLANCE

### EXECUTIVE LEADERSHIP ROUNDTABLE

February 23, 2022

Roundtable theme: *Pathways to SAP Application Modernization and Business Transformation*

### SPEAKERS

- » Linus Lai, Vice President, Software and Services Research Group, IDC Asia/Pacific, as moderator
- » Alan Sze, Deputy General Manager, Business Process & IT, Ocean Network Express
- » Timothy Fraser, Google Practice Lead, DXC Technology
- » Karthik Viswanathan, ASEAN Sales Leader, DXC Technology
- » Paul Dearlove, SAP Specialist Google Cloud, Google

- » How can enterprises ensure core business transformation after SAP modernization, and how can they deliver the most value and innovation to the business from the cloud?

Five key takeaways emerged from the discussion:

- » **Limitations of legacy environments hinder digital transformation (DX) ambitions:** Many enterprises are still running rigid, monolithic, antiquated systems that fail to deliver for today's digital business needs. As the number of application portfolios continues to increase, delaying modernization can impact business agility and resiliency, especially during disruptions like the pandemic.
- » **Technology-enabled business transformation:** Enterprises get positive results when application modernization initiatives are considered not just as a technical upgrade exercise but also as an opportunity to bring core business transformation. Along with the technology upgrade, culture and process changes bring lasting impact and value from the enterprise investments.
- » **Value beyond infrastructure scalability and reliability:** Enterprises moving their SAP S/4 HANA workloads to the cloud look for more than just scalable and reliable application performance from cloud providers. They also look at the providers' ability to consume and integrate services such as AI, analytics, and automation to maximize value from their SAP investments.
- » **Data governance and security are critical:** Enterprises migrating SAP workloads to the cloud need to focus deeply on data governance and security. A disciplined data governance mechanism is instrumental for data monetization and effective master data management. SAP Application security should not be an afterthought but built into all aspects of the cloud transformation.
- » **There is no one-size-fits-all approach:** Enterprises in Asia/Pacific are at different stages of digital transformation maturity and face distinct challenges in their journey to building an intelligent enterprise with S/4 HANA. One such predicament is to decide whether to consolidate multiple SAP instances or keep them separate. It is a strategic decision for enterprises to decide on the number of SAP S/4 HANA instances which ultimately depends on the enterprise's maturity of data governance, IT and business alignment, and complexity in business processes.

“Enterprises are adopting a combination of tactics to modernize legacy applications. This includes taking advantage of cloud-native technologies, and simplifying and rationalizing underlying legacy infrastructure.”

**Timothy Fraser, Google**  
Practice Lead, DXC  
Technology

## IDC's point of view

By 2023, products and services from digitally transformed enterprises will drive more than half of the worldwide GDP, according to *IDC Worldwide Digital Transformation Predictions 2022 — Asia/Pacific (Excluding Japan) Implications*. The ability to rapidly deploy digital innovation now is a core competitive requirement for enterprises. The pandemic has accelerated some of these timelines. The case for digital transformation has never been more urgent than in the past year, when organizations that were already on their digital transformation journey were a lot more resilient, and quickly adapted to change. This is fueling the next wave of investments in digital technologies, with a renewed focus on removing the complexities that were amplified during the pandemic.

### Application modernization imperative

One critical roadblock in an enterprise's digital ambition is the limitations of legacy applications. In the technology stack available in an enterprise's digital arsenal, applications play a significant role in creating evocative experiences. IDC's Applications Services Survey 2021 found that about 40% of the enterprise application portfolio requires modernization today. In three years, that figure will grow to 50% of the application portfolio, indicating that the complexities from legacy applications will continue to grow, and will fail to fulfill digital business needs.

The good news is that application modernization has become a priority for enterprises after the COVID-19 pandemic. IDC's 2021 APEJ Enterprise Services and Security Sourcing Survey reports that over 83% of respondents rated it "high" or "top priority". The survey also found that the key drivers for modernizing applications are no longer cost saving mandates but the need to build a better security posture, support enterprise DX initiatives, simplify the IT estate, and tap into the growing innovations of the cloud. The roundtable attendees concurred with this finding, with one of them saying that "the reason for modernizing to an S/4 HANA platform was to become 'a data-driven enterprise', and to have systems that integrate to a single platform. This enabled us to make faster and better-informed business decisions through improved analysis and reporting".

Although application modernization is now a top priority for enterprises, they often stall during execution, especially if the pathways to modernization are not clear. According to IDC's 2021 APEJ Enterprise IT and Business Services Sourcing Survey, 50% of enterprises in APEJ are in the initial stages of their application modernization journey, while 31% are yet to execute on their modernization plans.

### Cloud as the preferred destination

According to IDC, by the end of 2023, based on lessons learned, 80% of enterprises will have put a mechanism in place to shift to cloud-centric infrastructures and applications, and they will do this twice as fast as before the pandemic. Enterprises on their cloud transformation journey are already starting to see the benefits of cloud adoption in top enterprise IT priorities such as improving business processes and increasing revenue, reducing capex and IT costs, and delivering a superior customer experience.

Interestingly, according to IDC's 2021 APEJ Enterprise Services and Security Sourcing Survey, 88% of current SAP customers indicated that cloud is the platform of choice for S/4 HANA workloads. Apart from the scalability and application performance that a cloud platform provides, enterprises are looking to the cloud as a platform to fuel further transformation by increasing IT agility and accessing innovations such as analytics, automation, AI/ML. One of the roundtable attendees noted that by migrating S/4 HANA workloads to the cloud, they were able to enhance efficiency, improve productivity, lower cost, and achieve economies of scale through digitalization, consolidation, and process automation.

With over 42% of Asian enterprises surveyed by IDC well on their way to scale application modernization initiatives across business functions, it is important to understand that application modernization is a journey and there is no one-size-fits-all approach. Just as in sports there are several tactics to win a game, there are several pathways to modernize legacy applications, depending on the risk appetite and budget of an enterprise.

Modernizing our legacy ERP and customer-facing applications proved to be the right decision; it helped us remain resilient during the pandemic, providing the same level of service to customers during supply disruptions.

**Alan Sze, Deputy General Manager, Business Process & IT, Ocean Network Express**

## About the analyst



### Rijo George Thomas, *Research Manager, IDC Asia/Pacific*

Rijo George Thomas is a research manager in IDC's Asia/Pacific Software & Services Research Group, and leads the Enterprise Application Services research. He is in charge of delivering syndicated research and custom client projects in application services and across service segments such as automation services, security services, and managed cloud services for the Asia/Pacific region.



#### **IDC Asia/Pacific**

83 Clemenceau Avenue  
#17-01 UE Square West Wing  
Singapore 239920  
T 65.6226.0330  
Twitter @IDC  
idc-insights-community.com  
www.idc.com

**This publication was produced by IDC Custom Solutions.** The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC, unless specific vendor sponsorship is noted. IDC Custom Solutions makes IDC content available in a wide range of formats for distribution by various companies. A license to distribute IDC content does not imply endorsement of or opinion about the licensee.

External Publication of IDC Information and Data — Any IDC information that is to be used in advertising, press releases, or promotional materials requires prior written approval from the appropriate IDC Vice President or Country Manager. A draft of the proposed document should accompany any such request. IDC reserves the right to deny approval of external usage for any reason.

Copyright 2022 IDC. Reproduction without written permission is completely forbidden.