



## In the battle for ERP supremacy, Oracle wants to benefit from SAP's problems



German business software giant SAP and its US based competitor Oracle are locked in a fierce head-to-head competition. SAP has had the edge for a while. Now the pendulum could be swinging the other way.

ERP systems are the dinosaurs of business IT. They emerged in the late 1980s and have, since then, been progressively expanded, converted and adapted to new infrastructures and applications. In the auto industry, SAP software has established itself in many application areas, and the company continues to update and expand it.

The Walldorf, Germany-based company recently announced a new initiative in this field. For one thing, SAP wants to offer more solutions in the connected car area. For another, its payment systems are expected to simplify parking and fuel fill-ups. But due to ERP systems' steady advances



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into new areas, the programs have become extremely complicated.

The SAP Business Suite today has nearly 400 million lines of programming. At this massive scale, SAP introductions do not always yield the successes that companies expect.

"Elwis," an SAP project carried out by the German discounter Lidl, is the most recent example of a large-scale installation that failed spectacularly. Before halting the project in August, Lidl had been trying to introduce a new inventory management system using SAP for seven years. Experts estimate that more than 500 million euros were sunk into the project. Lidl had wanted the SAP system to support its growth initiatives especially in the US. But it abruptly pulled the plug. In an internal letter to its employees, Lidl said: "The strategic goals that were originally defined for the project can no longer be achieved at an acceptable expense."

The Deutsche Post, Germany's national postal service, has also had to write off expenditures in the half-billion-euro range in recent years. It wanted to optimize its business processes and supply chains. The SAP project was ultimately cancelled.

An indemnity payment to US energy company National Grid came to about \$70 million after a fruitless attempt to replace an existing legacy application with SAP.

Despite these negative developments, SAP is on track for solid growth in 2018. The company expects cloud subscription revenue to be up more than 36% for the year, cloud and software revenue up more than 8% and total revenue up at least 7.5%. Operating profit for 2018 is set to jump at least 9.5%. SAP will report preliminary 2018 results in late January, 2019.

"We're growing faster than our peers," SAP CEO Bill McDermott said in an October analyst call to comment on the company's third-quarter results. "We're gaining share in the cloud with more wins against new and legacy competitors with great new order entry rates. We're expanding profitability and increasing shareholder value."

By comparison, Oracle's revenue was flat in the six months ending November 30, 2018 at \$18.755 billion. Cloud services and license support revenue, the group's biggest business area by far, was up 3%, but other areas posted declining sales.

### Customization seen as security risk

Analysts say problems with SAP Business Suite aren't isolated cases. An investigation carried out by SAP partner Resulting Ltd found that just one-third of all SAP projects have achieved their envisioned business goals, and budgets have been exceeded in more than half the cases. "SAP implementations are a pure gamble," the report stated.

SAP software has also come under criticism in other areas. Security is the next key concern: SAP is the only ERP provider to offer the option of expanding standard functions with customized programming. That's a popular feature in an era where customization is seen as a key means of gaining competitive advantage. Consequently, nearly every customer takes advantage of this.



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On average, each SAP system is thought to contain about 2 million lines of individualized code. Only the customer ultimately takes responsibility for it, not SAP. An analysis of more than 370 customer systems showed that there is one security gap per 1,000 lines of code within their programming. In other words, the average SAP system has about 2,000 security gaps, each of which is capable of compromising the system.

By contrast, the insertion of a client's own code is impossible with Oracle. The US company has championed data security. "Our second-generation cloud database is more secure, faster and less expensive than everything else on the market," said Oracle Executive Chairman Larry Ellison at a company event recently. He also said there are "impenetrable barriers" that protect user data from outside attacks or interception by other applications on the same server. Even Oracle can't access the data.

"You shouldn't trust anyone," said Ellison, who also serves as Oracle's chief technology officer. "Your data are completely protected from us and anyone else." This level of protection is achieved with a physical separation of each user database from any others, along with the servers that manage cloud operations. Software robots ensure protection from external attacks by identifying attacks, protecting data and making repairs.

SAP also had to deal with major database setbacks involving its Hana product recently. The company now says it is supporting the Oracle database until 2025; the support was originally supposed to end in 2017. Experts see this as an open acknowledgment of the failure of its in-memory technology, which was conceived as a way to make SAP independent of archrival Oracle.

### Cloud competition

The analyst community in particular is skeptical about SAP's prospects when it comes to moving ERP into the cloud. "Cloud ERP is one of the hottest battlefields for business applications," said Massimo Pezzini of Gartner. "SAP is involved in a huge competition with Oracle, Workday, Microsoft and various relatively small specialized companies. SAP's relevance in the future ERP market will be determined in the cloud."

SAP CFO Luka Mucic, in the earnings call, disputed notions that the company is falling behind with efforts to move applications into the cloud. "Because of the strong cloud and overall business momentum, we have just raised the 2018 outlook for the third time this year," he said in the October call.

But Oracle clearly has the edge with its wide-ranging cloud initiative in the area of ERP. Aside from comparatively low prices, which are below those of Amazon, Oracle can especially score points for the new functions, including AI features, in its cloud-based Fusion Suite. They include new robotic process automation (RPA) functions as standard features.



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Ellison raves about the new options. "Machine learning permits the automatic creation of business transactions, the triggering of ordering processes, or the automatic payment of supplier invoices – all without human error," he said. The executive chairman considers AI capabilities to be a key reason to switch to Oracle. Said Ellison: "No ERP system is as high-performing as our Fusion Suite."