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Audit & Finance Committee
October 17, 2012

TO: Chair and Members of Audit & Finance Committee

SUBMITTED BY: _____
Greg Keefe, Director, Finance & Information, Communication &
Technology

DATE: October 17, 2012

SUBJECT: Alternative Service Delivery Models for SAP Support

INFORMATION REPORT

ORIGIN

Request of CAO Richard Butts to update Regional Council on the possible transition of HRM SAP support services to the Province of Nova Scotia.

BACKGROUND

Since 1997 the Halifax Regional Municipality (HRM) has leveraged SAP as its enterprise resource planning (ERP) solution. Currently, HRM's predominant use of SAP is limited to the SAP Financial and Human Capital Management (HCM) modules. HRM currently has an SAP operational support team that is responsible for providing SAP support to business end-users, maintaining master data and administering the SAP infrastructure for HRM. HRM currently hosts its SAP technical infrastructure within the HRM data center.

The Information, Communications and Technology (ICT) Division is undergoing a transformation to align itself with the standards typical of an enterprise class service provider. A component of this transformation involves ensuring ICT managed systems, such as SAP, are meeting the requirements of HRM's business units. HRM's current version of SAP is several versions behind industry standard enhancement packs. In order to implement further SAP functionality that can streamline HRM operations and supply additional value to HRM business units and tax payers, an upgrade of SAP software and related hardware is required. These activities require considerable human and capital investment to complete.

Prior to approving these required investments in HRM's instance of SAP, Finance & ICT management made the decision to explore alternative support options to determine the most effective means of addressing current SAP support requirements. The focus of this analysis centered on outsourcing options to the Province of Nova Scotia's (PNS) SAP Customer Competency Center (CCC).

The SAP CCC has developed extensive experience and expertise working with and utilizing SAP over the last 15 years. The CCC resides within the PNS department of Finance and oversees the SAP system used by provincial government departments, as well as provides SAP outsourcing services to six municipalities, regional school boards, housing authorities, Nova Scotia Business Inc., Halifax Regional Water Commission, and the Nova Scotia Liquor Corporation. In total, the CCC supports approximately 66,000 SAP users.

The CCC was the primary focus of investigation as they supply a centralized service delivery model that provides support services specific to infrastructure, technical services (system administration) and functional services (configuration and enhancements). While the CCC's organization is designed to effectively administer support, it also includes a Project Management Office, a Municipal Support Team, a Change Management office, and a fully staffed Service Desk. Lastly, the CCC operates on a cost recovery basis and has significant buying power because of its size.

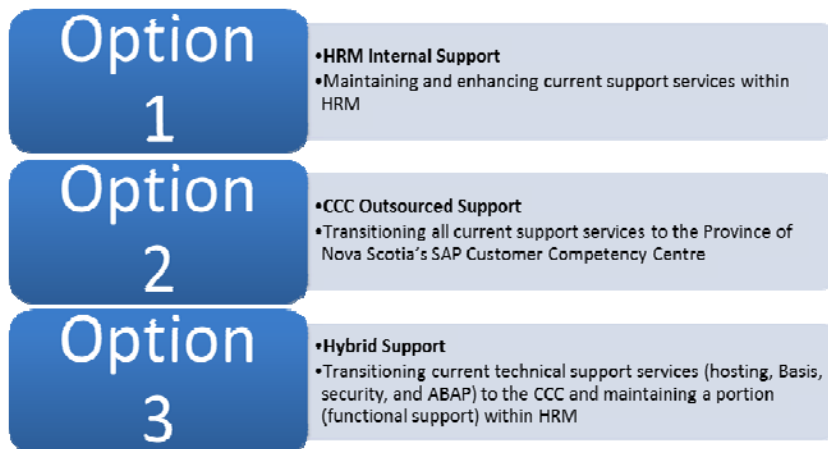
The following focus areas were used in evaluating a potential move to the CCC:

- Industry track record;
- Security and data management policies;
- Availability of proven application processes and procedures;
- Culture match;
- Ease of doing business; and,
- Investment in tools and methodologies relating to the SAP practice.¹

The business case is complete and has been presented to HRM executive management. The purpose of this report is to update Regional Council on the recommended direction of the business case.

DISCUSSION

A project team was assembled to objectively evaluate the following three alternative support options:



The three alternative options were analyzed against industry best practice, using standard criteria for measuring effective SAP support models. In addition, the anticipated total cost of ownership over five years was determined for each option. Inputs into the process included consultations with HRM management, SAP support staff and HRM SAP users, reference interviews with current CCC clients, extensive investigation of the CCC's service offerings, and industry best practice research.

¹ Gartner: Q&A: How Do You Make SAP Outsourcing Deals Really Work?, 2011.

Administration of the approved weighted evaluation criteria identified Option 2, the complete transition of SAP technical and functional support from HRM to the CCC, as the strongest model of the three options. In addition, the completed cost analysis identified Option 2 as having the lowest total cost of ownership over five years of the three options examined (see table in Budget section below). The report indicated the SAP support model and framework in place at the CCC is likely to produce the most effective SAP support results compared to the other two options, primarily because the CCC views SAP support and delivery as a core competency. If SAP is not a core competency of an organization, it may be too complex to keep pace with functionality that is required to meet emerging business needs. By outsourcing SAP to the CCC, HRM can shift its focus away from competencies that are not part of its core delivery and allow a service organization to expend the effort necessary to keep up with the complexities of SAP delivery.

The recommendation of the business case is that HRM should pursue **Option 2**, engaging the CCC to negotiate a Service Level Agreement and financial contract for the provision of all functional and technical support services. This recommendation was reviewed and supported by the HRM executive management.

Prior to formalizing an agreement, appropriate due diligence is required with the SAP CCC as it lays the foundation for a new service management contract. Human resource considerations will be a significant component of the due diligence process. In addition it will be necessary to develop a detailed transition plan. A transition strategy and associated due diligence stage is now underway to establish a service level agreement and lay the ground work to complete a successful transition.

BUDGET IMPLICATIONS

This section outlines the total anticipated costs for each solution option over a 5 year period. Direct (net new to operational budgets) and indirect costs (internal investment required to complete project from current operational expenditures; e.g. time investment from current staff) are both included in the total cost figures. .

Comparative Summary of Costs by Solution Option							
Solution Options	Implementation Year						Total
	0	1	2	3	4	5	
Option 1: Internal	\$ 131,840.00	\$ 1,427,744.83	\$ 1,451,038.32	\$ 1,470,883.89	\$ 1,491,027.15	\$ 1,511,472.56	\$ 7,484,006.75
Option 2: CCC	\$ 301,960.00	\$ 1,195,520.54	\$ 1,173,680.43	\$ 1,181,723.14	\$ 1,189,886.49	\$ 1,198,172.28	\$ 6,240,942.88
Option 3: Hybrid	\$ 300,280.00	\$ 1,555,037.58	\$ 1,545,055.81	\$ 1,562,286.40	\$ 1,579,775.44	\$ 1,597,526.82	\$ 8,139,962.05

A fully outsourced model will cost HRM approximately \$170,000 more in upfront costs (some of which come from internal staff costs). However, the average annual operating cost over the five years is \$282,000 less through a fully outsourced model, leading to a total cost savings of approximately \$1,240,000 over a five year period.

Research also indicates that an average SAP support division features 1.92 support staff per 100 users. Fifty percent of these staff are committed to functional support. HRM has 750 SAP users.² This would suggest that seven SAP Specialists are required, compared to the current contingent of six. Thus, in order to provide a level functional support equal to the CCC, HRM would incur additional annual staffing costs of \$90,000. This would lead to an additional \$450,000 in costs over a five year period.

Risk

The business case identified a number of risks to proceeding with this initiative (see diagram below). The most significant risk is that the SAP CCC is currently part of a province wide service review, where alternative service delivery models for the CCC are being examined. This introduces an element of risk and uncertainty to HRM’s desire to outsource its SAP support service to the CCC. All elements of this risk will be examined as part of the due diligence process underway, and will form a key consideration in the final decision to proceed with the outsourcing engagement as outlined in the business case.

Solution Option	Risks				
	Loss of Institutional Knowledge	Hardware Failure	PNS SAP Review	Loss of Staff Affecting Morale	Security of Police Data
Option 1		<input checked="" type="checkbox"/>			
Option 2	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Option 3			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

² Gartner: *Gaining Insights From SAP Support Staffing Data*, 2005

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Project and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Project and Operating reserves, as well as any relevant legislation.

COMMUNITY ENGAGEMENT

N/A

ATTACHMENTS

N/A

A copy of this report can be obtained online at <http://www.halifax.ca/commcoun/cc.html> then choose the appropriate Community Council and meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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