

A Rimini Street White Paper

Take Back Control of Your ERP Investment

Rimini Street[®]

About Rimini Street, Inc.

Rimini Street is the global leader in providing independent enterprise software support services. The company has redefined enterprise support services since 2005 with an innovative, award-winning program that enables Oracle and SAP licensees to save up to 90 percent on total support costs. Clients can remain on their current software release without any required upgrades for at least 15 years. Over 1000 global, Fortune 500, midmarket, and public sector organizations from a broad range of industries have selected Rimini Street as their trusted, independent support provider.

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“One of the main reasons businesses upgrade their software to a new release is because support for their older version of software is about to be cut or terminated by the software vendor. No one wants the risk of running business-critical software without support, and so businesses are often forced to take on expensive upgrades, even if they are happy with their current release and see minimal or no functional benefit in the new release.”

– Mark Bartrick, “The Emerging Third-Party Software Support Marketplace: Questions and Answers,” October, 2012



Executive Summary

Who’s In Control of Your IT Budget – You or Your Software Vendor?

Many ERP customers feel they have lost control over their own IT destiny as software vendors have positioned themselves to call all the shots – including the timing of upgrades, prioritization of enhancements, and forced increases in annual maintenance fees.

What’s worse, in return for those fees, ERP customers are not getting the steady stream of innovation and bankable ROI they should expect; instead, they are basically getting locked further and further into the vendor’s technology stack and development road map. And on top of that, your maintenance fees do not actually pay for new products from the vendor: rather, to get those new products you typically must pay additional license fees on top of what you’re already paying in annual maintenance.

“Staying Current” Devours Budget, Stifles Innovation and Delivers Questionable Value

The reality for most ERP customers is that after years of effort and investment you’ve built a mature, stable set of ERP applications. What you should expect for your maintenance dollars are timely solutions to today’s business problems, but that’s rarely what you get from the vendor. Just staying supported by the vendor is costing you enormous amounts of money for maintenance fees and related ongoing support costs that you could be using to fund innovation in other areas.

You Can Take Back Control and Set Your Own Agenda

CIOs can take positive action to take back control of their IT strategies. Today, for example, all CIOs should know that they have a choice of support providers. Today, hundreds of companies are taking advantage of independent support – and in so doing are taking back control of their ERP investments as well as delivering enormous savings to the bottom line. **These CIOs have decided they have had enough, and have taken positive action to take back control and get off the never-ending ERP maintenance treadmill.**

In This White Paper

This white paper is dedicated to the idea that you, too, can take back control of your ERP investment from the vendor. We’ll take a close look at the choices you can make to stop going round and round chasing your ERP system and vendors. Major points:

- **What’s the business case for upgrading ERP systems? Most often, there is none.** The software vendors promise “rapid return on investment” from upgrading but rarely if ever offer legitimate proof points or examples of verifiable customer ROI.
- **ERP is mature today – the big ERP have fallen behind the innovation curve.** Innovation is coming from consumer technology companies like Apple, Facebook and Google, and from smaller, nimbler players in the business space working on native SaaS/cloud solutions.

“The vendor’s response to us was always, ‘You need to upgrade.’ But we didn’t think the latest version of the software was worth it. By taking control of our upgrade strategy, SFN Group is able to save millions of dollars in annual support fees and forced upgrade costs. SFN Group is reducing the risk of vendor lock-in, by retaining the flexibility (and funding) to select the best application upgrade road map for our business – on our own time line, when we are ready.”

– Vice President, Information Technology, SFN Group



“Third party maintenance (3PM) allows organizations to receive maintenance, tax updates, and regulatory changes with savings of at least half the cost of existing vendor maintenance costs. Organizations on both newer and older releases with a stable applications core typically consider this option for both short-term and long-term cost savings.”

– Ray Wang, “Why Every CIO Should Consider Third Party Maintenance,” August 2011



- **Strategic relationship or vendor lock-in?** The character of the vendor-customer relationship has changed with the evolution of ERP since the 1990s. Back then, you willingly partnered with your software vendor; today, your vendor is in a platform war to lock you in to its proprietary technology stack and you need to be accordingly more circumspect.
- **Your customized code needs support.** Vendors do not support modified code in their standard support programs and generally try to dissuade you from customizing. But Rimini Street supports your customized code at no extra charge – we “get it” that you frequently modify and tweak your ERP system to satisfy the legitimate demands of your business.
- **Today’s vendor support model is outdated, obsolete, and unfair to ERP licensees.** The problem is systemic, extending beyond the big ERP vendors to systems integrators, hardware vendors and even Wall Street firms, all of whom make money every time you update or upgrade your system.
- **Understanding your total support costs for ERP.** Typically, the ROI for an upgrade is impossible to demonstrate – but calculating your potential savings from independent support is a simple, straightforward exercise.

Rimini Street is helping hundreds of organizations worldwide take back control of their ERP dollars and reject change for the sake of change.

Take Back Control of Your ERP Investment

Introduction: Who's Defining Your IT Strategy and Application Road Map? You or Your Software Vendor?

“As the costs of software support have increased year on year and as CIOs have realized that vendors like Oracle and SAP have been enjoying up to 90% profit margin on maintenance revenues, an increasing frustration has developed that the costs seem to far outweigh the actual value being delivered. In recent years, this frustration has created a strong market demand for more cost-effective software support.”

– Mark Bartick, “The Emerging Third-Party Software Support Marketplace: Questions And Answers,” October 2012



“The packaged software maintenance model is broken. Don't reward software vendors for it by staying on their upgrade treadmill at their arbitrary 18 or 22% a year of software 'license value,' much of it in unused shelfware.”

– Vinnie Mirchandani, “Gartner's 'IT Debt' Scare,” Deal Architect, September 2010



When it comes to upgrading and staying current under vendor support timelines, most companies have played the game according to the vendor's rules ever since the inception of enterprise resource planning (ERP) software in the 1990s.

But over the past few years more and more CIOs have come to the realization that the whole annual support and upgrade “system” has gone too far; **the balance has flipped to the vendor's advantage through constant application upgrades, forced technology stack changes, high maintenance fees, and a slow drip of new products whose development has been funded by your maintenance fees but that you have to license anyway.** And in the process, your true needs for business process and IT innovation have gotten lost in the shuffle.

The Vendor's Answer for Everything:

Spend More of Your Limited Budget with the Vendor

Longtime ERP customers have seen the industry go from client/server to Internet architecture, and now that we are finally stable, software vendors and their networks of partners and consultants want you to change everything all over again. Why? Because some industry analysts are saying that vendor-hosted “cloud” applications are the wave of the future, and the vendors have jumped on the bandwagon, seizing this as an opportunity to make money.

Many observers, on the other hand, believe ERP customers have become too complacent, and that they should be questioning this never-ending “change and churn” promoted by ERP vendors, their partners, and their Wall Street backers. Indeed, in 2012 the power balance of the ERP customer/vendor relationship is uneven, out of kilter. **Today 80 percent of the typical IT budget is going to maintain current operations as opposed to driving new initiatives.**¹ Plus even though you're not getting innovation from the software vendors, they want you to spend money without being able to prove that you will save money (few if any upgrades have verifiable ROI based on our experience).

Don't You Have to Keep Your ERP “Current” with Vendor Updates?

What's the best strategy for keeping your ERP environments current and up-to-date? Over the past two decades, applying updates and patches and “staying current” has become a major part of the IT department's day-to-day support operations – and one of its biggest budget line items. The whole vendor support/upgrade model has become such an ingrained part of the way we think about ERP that as a CIO, you may not have ever seriously considered **asserting control – that is, getting off the vendor's agenda and charting your own course in terms of a strategic ERP road map that will bring your company verifiable ROI.**

¹ Gartner, “Gartner's Top Predictions for IT Organizations and Users, 2012 and Beyond: Control Slips Away,” November 23, 2011.

Power Play: The Big Software Vendors and Their Partners Have a Vested Interest in Keeping You on the Vendor Support Treadmill Forever

Not surprisingly, the idea of leaving vendor support and switching to independent support isn't discussed anywhere by SAP, Oracle or their many business partners who make money applying and supporting the constant barrage of release updates, support packages and upgrades. In fact, these organizations have a vested interest in you remaining on vendor support, because it generates billions of dollars to their bottom lines every year. In effect, they never really want you to reach a stable state, and so the maintenance/update/upgrade treadmill is constant.

Do You Really Need to Do All This?

In order of priority, the vendors and their partners want you to:

- **Apply the latest Release Updates.** Unless there is a specific bug fix you need, there is little benefit to the customer here. The vendor benefits, however, because support becomes easier and it's easier for them to sell you new licenses if you are current on the latest release.
- **Apply all patches on the Recommended Patch List for the product.** Again, this is not much help to the customer unless there is a specific new feature available that the customer needs. The vendor, on the other hand, benefits when the customer adopts further products.
- **Upgrade all technology stack components to the latest certified levels.** Chasing interoperability issues can consume time and resources for customers using older technology stack components (for example, Internet Explorer 8). The vendor benefits by licensing new tech stack components (for example, Oracle E-Business Suite 12.2 requires you to license WebLogic Server from Fusion Middleware 11g).
- **Apply the latest Critical Patch Updates (CPUs).** This can benefit the customer if there is a specific security issue, but in all cases it makes support easier for the vendor.
- **Apply specific one-off and interim patches.** This is painful for customers unless they are having a specific issue. But for the vendor, it makes the client more supportable.
- **Adopt new technologies and replace old ones.** This is not a customer benefit when you are trying to maintain the status quo, but for the vendor, it makes the software cheaper to support and maintain.

What justification do the vendors give you for forcing you to do all this? They want you to believe it's cheaper and safer in the long run. But is that really true? We will examine such claims in detail in this white paper.

Take Back Control

What if you stopped chasing the endless treadmill of updates and instead put your IT dollars into streamlining and optimizing your current system?

Let's begin by examining the business case for upgrading today's mature ERP applications.

"For most software vendors, maintenance represents 50-80 percent of their revenue stream with almost 80-90 percent profit margins."

– Ray Wang, "Why Every CIO Should Consider Third Party Maintenance," August 2011



ERP Is Stable and Mature Today

“For buyers, the value equation has also flipped as enterprise software has become much more stable as well as functional. The need to consider a major upgrade has decreased tremendously.”

– Erik Keller, “Taking the ‘Entitlement’ Out of Enterprise Software,” 2006

Wapiti LLC

The Big ERP Vendors Are No Longer Innovating

Why should you stay current and upgrade your mature ERP system when today’s dazzling innovations are coming not from the big ERP software vendors, but rather from pure-play cloud vendors and consumer technology companies?

A Lot of the Best and Brightest Engineering Talent Has Left the ERP World

During the dot-com boom and after the year 2000, the big software vendors lost thousands of leading developers who had been providing the bulk of the vendors’ innovation – they all left the legacy vendors and got new jobs in SaaS and cloud companies. A decade later, back at the big vendors, it’s not about innovation, it’s about staying current so you can pay maintenance and get more and more inextricably locked into the vendor’s technology stack.

Many Industry Observers Critique the ERP Vendors for Lack of Innovation

The titles of a pair of analyst articles tell the story: “Seven Signs Your Software Vendor Can’t Innovate Fast Enough”² and “Even More Signs Your Software Vendor Can’t Innovate Fast Enough.”³ A few cogent examples:

1. Upgrades – or “forced marches,” as customers call them – remain expensive, cumbersome and time-consuming, and deliver little if any ROI.
2. Vendors repackage existing functionality and attempt to sell it back to you as a new product.
3. Compare cost benchmarks for application support, hosting and storage prevalent in today’s SaaS and cloud world with the same costs in your vendor’s legacy ecosystem: your vendor’s ecosystem is badly behind the times.
4. Vendors often latch on to the latest fad – for example, social media – and use it to divert your attention away from their own fundamental lack of innovation.
5. Look at current training and documentation materials produced by non-ERP software giants like Apple and Google; in contrast, your vendor’s training classes and documentation are a throwback to the 1990s.
6. Even with all the noise about “big data,” analytics remain confined to internal, historical, structured data instead of predictive, web, and unstructured analytics.

Rogue IT Spending by Departmental Groups Is On the Increase

The big ERP vendors’ lack of innovation is also reflected in the “phantom IT spend” that occurs when business units “go rogue” and use their own applications because IT is not getting them what they need via traditional ERP.⁴

² R. “Ray” Wang, “Seven Signs Your Software Vendor Can’t Innovate Fast Enough,” *SoftwareInsider*, June 8, 2009, <http://blog.softwareinsider.org/2009/06/08/tuesdays-tip-seven-signs-your-software-vendor-cant-innovate-fast-enough/comment-page-1/#comment-1957>, accessed August 24, 2012.

³ Vinnie Mirchandani, “Even More Signs Your Software Vendor Can’t Innovate Fast Enough,” *ZDNet*, June 10, 2009, <http://www.zdnet.com/blog/howlett/even-more-signs-your-software-vendor-cant-innovate-fast-enough/970>, accessed August 24, 2012.

⁴ R. “Ray” Wang, “Coming to Terms with the Consumerization of IT,” *Harvard Business Review*, *HBR Blog Network*, July 13, 2011, http://blogs.hbr.org/cs/2011/07/coming_to_terms_with_the_consu.html, accessed January 22, 2012.

Upgrading ERP Systems

What's the Business Case?

What's the business case for upgrading? Most often, there is none. The software vendors promise "rapid return on investment" from upgrading but rarely if ever offer legitimate proof points or customer examples. We'll go through the typical vendor promises one by one, showing how they represent wishful thinking and marketing hype more than documentable reality. They promise if you spend money on the upgrade there will be savings later – but can never prove it. We believe there's a powerful force of "resume building" at work here: consultants and IT staff always want to have the latest and greatest versions of software on their resumes whether there is value to the organization or not.

Vendor-Supplied Business Case Models Will *Always* Say You Can Save Money By Upgrading ...

Have you independently verified the return on investment (ROI) you are getting from staying current and upgrading your ERP applications? What if your board asks for a solid business case for upgrading that's based on data and assumptions that don't come from the vendor? Many customers will struggle to deliver this.

Vendor-supplied business case models tend to be full of soft costs and very general assumptions. Before moving forward with an upgrade the vendor should be able to demonstrate, in hard dollars and cents, the ROI it is promising. If it can't there's good reason to believe your money is better spent elsewhere.

... But Do ERP Upgrades Really Provide "Rapid Return on Investment"? Show Me the Proof!

Most ERP clients faced with upgrading their systems have to build business cases to support the expense of the upgrade. This is typically done by building a business case around a specific feature or function in the system that shows if you upgrade you can save the company time and money. But most of the time this is a very difficult thing to do with an ERP system.

When it comes to upgrades, over the years the ERP marketing machine has touted pretty much the same dubious story over and over again, year after year, promising "rapid return on investment." For example, the following is from a 2007 Oracle white paper on the business value of upgrading to PeopleSoft 9, but in the language is so generic it could be applied to any software release: "Creating a rapid return on investment, PeopleSoft Enterprise HCM applications automate business processes, reduce operational costs and increase efficiency, continually defining and leveraging industry best practices."⁵

⁵ Oracle Corporation, "The Business Value of Upgrading to PeopleSoft 9: Human Capital Management Solutions," An Oracle White Paper, January 2007, <http://www.oracle.com/us/media/056901.pdf?ssSourceSitelid=ocomjp>, accessed August 24, 2012.

Optimistic Claims About Upgrades Reducing Costs Should Be Tempered by Reality

Once more, the claim is as follows: “PeopleSoft Enterprise HCM creates a rapid return on investment.” Really? The reality is that most clients never realize any cost savings from an upgrade, and Oracle and SAP traditionally have not done any work to actually quantify any hard savings after you’ve spent all the money. Rather, they, along with their huge partner ecosystems, publish self-justifying white papers listing soft costs that claim to help you build a business case for upgrading before you’ve actually begun spending money.

Let’s look at specifics. In its white paper “Building the Business Case to Upgrade to Oracle E-Business Suite Human Resources Management System Release 12,”⁶ Oracle says that among the top reasons you should upgrade are that the new release supports HR best practices, reduces administrative costs, and improves productivity. In the following we juxtapose a few of Oracle’s claims against the not-so-glittering realities most customers face based on our experience.

- **“The new release supports multiple best practices.”**
 - The vendors claim that features such as roles-based online access for managers and employees are useful; however, such features do not necessarily represent a cost savings.
 - The vendor will tell you its software promotes a “total rewards philosophy”; but applications for talent and total rewards were largely developed by non-ERP niche players.
 - The vendor may also claim that its software helps you develop and document standard workforce administration processes across organizational units and employee groups to identify and eliminate redundant or unnecessary practices. In reality, most customers do this outside the ERP system, as it is too difficult to manage inside the system.
- **“The new release reduces administrative costs.”**
 - Vendors claim their software can reduce HR printing and distribution costs, as well as the cost of payroll errors, benefits enrollment fees and recruiting. The reality is that these types of costs are extremely difficult to measure, and typically do not add up to significant ROI.
- **“The new release gives you improvements in productivity.”**
 - Vendors may claim their software can reduce time to hire, process open enrollment and life event changes, process job requisitions, and apply for a job. Again, these benefits are overstated and can rarely be backed up by hard numbers.

Be sure to give *all* vendor claims about the supposed benefits of upgrading a reality check.

⁶ Oracle Corporation, “Building the Business Case to Upgrade to Oracle E-Business Suite Human Resources Management System Release 12,” An Oracle White Paper, June 2007, <http://www.oracle.com/us/media/057312.pdf>, accessed August 24, 2012.

“Despite hundreds of billions of wasted on failed research and development projects, most market influencers would agree that enterprise software vendors have produced a dearth of innovation over the past decade ... Innovation came from the consumer tech side and next-generation solution providers.”

– Ray Wang, SoftwareInsider, October 2010



What are the Real Benefits of Upgrading?

What Are the Benefits and Operating Savings That Are Actually Realized for an Upgrade?

Unless there is a specific feature or new module you badly need that is not available on your current system, we believe there are few if any benefits to upgrading. Most “benefits” turn out to be soft costs that are difficult or impossible to quantify – or fixes to the software that were identified by the users that you should have gotten anyway and maybe did get if you happened to report them before your vendor stopped supporting your current release.

When an Upgrade Is Really a Downgrade, You’ll Wish You Never Did It

Sometimes an upgrade “backfires,” leading to unpleasant and expensive results. One ERP customer, a mid-market manufacturer of lighting fixtures, was running PeopleSoft 8.9 and was convinced by Oracle to upgrade to PeopleSoft 9.

According to this company’s CIO:

The feedback we got from Oracle back in 2008 was that we had to get on PeopleSoft 9.0 in order to stay supported. That threw some fear into our senior executives. So when I arrived here as CIO, they were mid-way through their upgrade, having spent millions of dollars (and were about halfway through that spend).

It was at the eleventh hour when I went to my CEO and said, “I don’t really think we’re going to get anything for the dollars we’re spending. I just need your OK to, when we’re through this upgrade, when it’s complete, we need to get off of PeopleSoft.” It just was a tremendous, tremendous IT expense; we have modified almost every piece of code in PeopleSoft.

Long story short, we went through the pain of doing this upgrade only to find that not only there’s no functionality there that we could use, but, also in essence, we had to upgrade our hardware because performance fell back and we’re still not at the performance we were before!

We would never go through that upgrade path again. And we looked at that as an opportunity to do something about independent maintenance. My only wish is, I wish I’d known Rimini Street was out there before we started this upgrade, because I really don’t think we would have done the upgrade at all.

Take Back Control of Your ERP Investment Before It’s Too Late

In the end, this CIO succeeded in taking back control from the vendor by switching to Rimini Street Support, but it was a little late. You don’t have to make the same mistake.

Strategic Partnership or Vendor Lock-In?

“Software vendors will require customers to upgrade to the latest application version by ‘sunsetting’ support for the prior version. In contrast, third party support providers will often support a single version for 10 or 15 years, saving the customers the cost of upgrading every few years.”

– *“Third Party Support: Not the end of software maintenance, but a profound change,” July 2011*

PiperJaffray

The character of the vendor-customer relationship has changed with the evolution of ERP since the 1990s. Back then, you willingly partnered with your software vendor, as your vendor filled out functionally incomplete product sets and systematically worked the bugs out of its immature software.

Today, things have changed: your ERP is stable, mature and functionally complete, and your vendor is in a platform war to lock you in to its proprietary technology stack. Companies are upgrading not for compelling new innovative functionality from the vendor, but merely to “stay current” on vendor support timelines.

In short, today the power balance has changed. Instead of “partnership” we hear customers talking about “vendor lock-in.” The vendors want more even more control than they had in the past, as they continue to introduce their own proprietary technologies into the underlying stacks that support their applications. Accordingly, you need to be more circumspect.

SAP HANA and Oracle Exadata

Good examples of this are SAP’s HANA and Oracle’s Exadata. Both are a combination of hardware and software specifically made to process massive realtime data using in-memory computing.

In the case of Exadata, customers could run the original version on the hardware platform of their choosing; but with the Exadata 2 release, Oracle tightly linked the product with the Sun Microsystems architecture it acquired in 2010, and going forward, Exadata customers will need to use Oracle’s Sun hardware platform. That is the very definition of “lock-in.” And of course, Oracle’s long-delayed next-generation platform, Oracle Fusion, is likely to be available only on an Oracle database.

What’s happening is that now that the core ERP applications are mature and stable after decades of development, the vendors need to keep making money, so now they are trying to take over your technology stack in addition to your applications. This is after years of preaching “open standards.”

Take Back Control

Again, you need to be asking yourself: How much control of my organization’s technology future do I really want to be signing over to a single vendor?

Your Customized Code Needs Support

Vendors try to dissuade you from modifying their vanilla systems, and do not support customized code in their standard support programs. But independent support firms like Rimini Street support your customized code at no extra charge – they “get it” that you frequently modify and tweak your ERP system to satisfy the legitimate demands of your business. That’s why you purchased your ERP in the first place.

ERP Systems Were Explicitly Designed to Be Modified ...

With the negative perception the vendors have succeeded in creating around customization, it’s easy to forget that today’s ERP systems were originally built to be customized. In the 1990s companies like PeopleSoft delivered easy-to-use toolsets (PeopleTools) designed to make it simple and inexpensive for customers to modify their systems in-house. Maybe a casual business user couldn’t change or add a field, but a developer with minimal training could do it in minutes. The vendors’ position was essentially this: “We deliver about 80 percent of your business functionality; we expect you to build the remaining 20 percent.”

... But Today, Constant Pressure to Upgrade Makes Modified Code a Constant Headache

Flash forward to today: nowadays, the big software vendors do not want you to customize your application, because they want you to be able to continue to upgrade it to their latest release. The big software vendors don’t support your customized code as part of their standard support programs. And the ecosystem of systems integrators and hardware vendors wants you to spend all your money on the initial implementation and then looks at you as a source of ongoing revenue for years to come as they take you through each and every upgrade.

The Solution: Take Back Control

Independent support offers a way out of this conundrum: Rimini Street supports your customized code at no extra charge. You will never hear us ask you to replicate the issue in a vanilla environment; we roll up our sleeves and get to work solving your issue. Further, 80 percent of all P1 tickets submitted to Rimini Street involve code that the client has customized: these are showstopper issues that the vendor’s typical support contract simply does not cover.

Rimini Street believes that:

- It is your right as a customer to customize your ERP system to create competitive advantage.
- Instead of spending money on upgrades that buy you nothing over time, maybe you would be better served by investing in your application, optimizing it, and implementing all the features that can improve your business.

Another kind of pressure not to customize occurs when enhancements that could and should be implemented never do get implemented because all available resources and dollars are being funneled into merely supporting and maintaining the status quo. **Again, you can take back control simply by stopping the madness – imagine no longer having to throw an enormous percentage of your IT budget into the bottomless pit of “staying current.”**

ERP Maintenance Ecosystem Has Vested Interest in Maintaining Status Quo

“The capital needed to acquire the licenses, the high cost of deploying and managing the software, and the outrageous maintenance fees are causing executives to rethink their ERP strategy.”

– AMR Research, “ERP Maintenance Dissatisfaction: Is It Short-Term Economic Grumpiness or a Flawed Business Model,” April 2009



Analysts, echoing the thoughts of ERP customers, are saying that today’s vendor support model is outdated, obsolete, flawed and unfair to ERP licensees. The problem is systemic, extending beyond the big ERP vendors to systems integrators, hardware vendors, and even Wall Street firms, all of whom make money every time you update or upgrade your system.

Does This Sound Familiar?

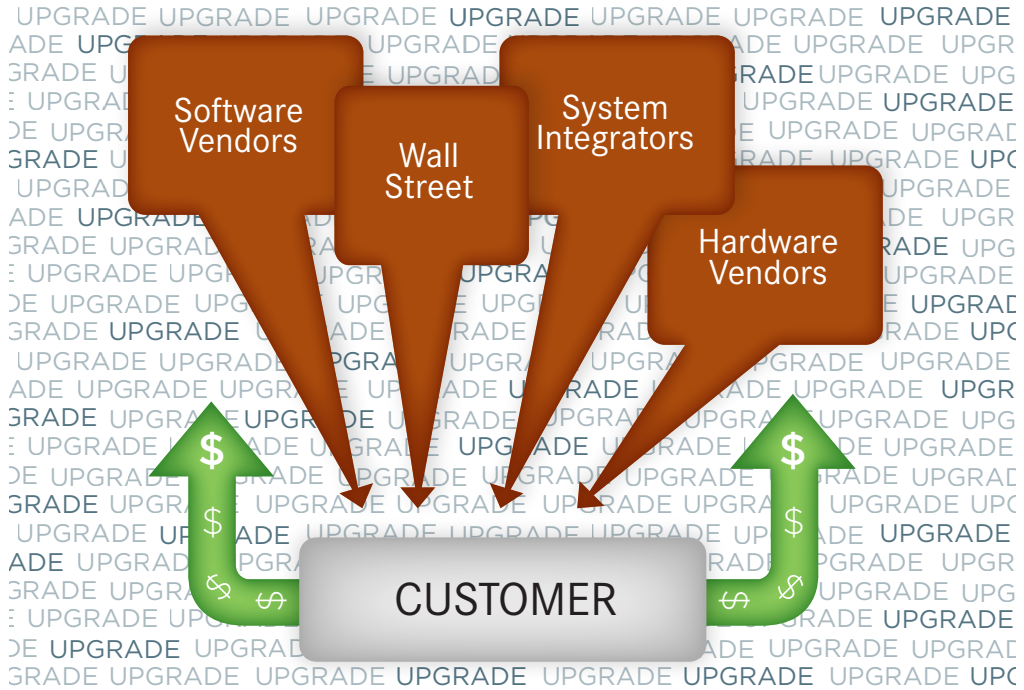
You’re besieged by hordes of aggressive businesses that are in the business of justifying your upgrade. And it’s not just the Big Four – there’s a million little consulting companies that are feeding off of the same cash cow, trying to get you to upgrade and keep you current. As the noise grows louder, there are so many people telling you to upgrade that the only thing that emerges above the din is the billable rate: “Well, Deloitte will do it for \$300 an hour, but I can get it from Joe’s OPN Shop for \$125.” Upgrade resources have become commoditized. And no one ever questions whether you should even be embarking on an upgrade in the first place. With a sigh, you say, “I know I’m going to do it – I just want to find the cheapest possible way to do it.” ...

This is a bad dream that CIOs live almost every year. They’re tired of it. But many are not questioning it. Well, it’s time to take back control and question it.

Enterprise Software Support Is a \$26 Billion Market

The teeming ecosystem of ERP consulting companies is making big money from upgrades and it is not in their best interests to point out that it is a never-ending cycle. They want you to upgrade, and do not flinch at making up business cases with false ROIs that justify upgrading. Simply put, the vendor and the implementation partner have the same goal: to make money. And that’s only the beginning of the story.

LEGACY MAINTENANCE MODEL



The ERP Upgrade Treadmill

It never ends. Every day, ERP customers face demands from the software vendors, the systems integrators, and the hardware vendors, all of whom have to answer to Wall Street. Wall Street expects greater and greater profit every quarter and one way to make that happen is to force ERP customers to upgrade to new hardware or software, whether or not there are sound business reasons for doing so.

It becomes a situation where the system makes money only when the customer changes something. Buying a new piece of hardware means it has to be implemented. Moving up to a new version of application software may mean changing out an operating system. These types of changes have to be made in the customer's ERP environment constantly, or else no one is making money.

Let's round out our discussion by examining what you are really paying to keep your ERP system up and running.

Understanding Your Total Support Costs for ERP

“I think 3rd party support providers will capture a larger portion of the market due to 2 factors: 1) the value received from the latest upgrade in a large number of the cases is not worth the cost and pain to do the upgrade; and 2) the cost of maintenance and support from Oracle in these economic times is extremely high.”

– “Third Party Support: Not the end of software maintenance, but a profound change,” July 2011

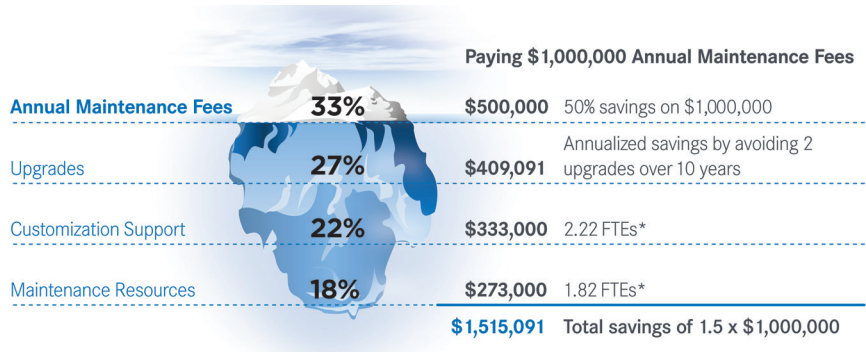
PiperJaffray

Vendor Annual Maintenance Fees Are Only One Component of Your Total Maintenance Spend

Drilling deeper into your ongoing maintenance spend, your annual vendor support fees are just the tip of the iceberg of your total maintenance costs, probably accounting for only about a third of your total support spend. Total support costs are almost always underestimated, and it can come as a shock when you become aware of what you’re actually spending just to remain at the status quo.

On top of annual maintenance fees, which can be millions for larger ERP customers, you need to pay for:

- The cost of upgrades and enhancement packages.
- Fixing issues with customized code that the vendor’s support contract does not cover.
- The cost of your internal support resources and processes.



Independent Support Enables Total Maintenance Savings of Up To 1.5x Your Vendor Annual Support Fees

Combining the 50 percent reduction on vendor annual support fees with the other maintenance cost categories, Rimini Street clients can achieve savings of 1.5 times what they formerly paid the vendor in annual support fees. In the example depicted above, a customer paying the vendor \$1 million in annual maintenance fees will save \$1.5 million in a single year by switching to Rimini Street Support.

Companies moving to independent support from Rimini Street save significantly on all the maintenance cost categories, which are described in more detail in the following table.

“Our top priority when we chose Rimini Street was the cost savings, but we also wanted to improve service quality. We are now a year into the relationship and our total savings are more than we expected and the support service bears no resemblance to the service we were getting before.”

– United Kingdom Information Services Controller, United Biscuits



Maintenance Cost Category	Percentage of Total Maintenance Savings	Description
Vendor Annual Support Fees	33%	Annual vendor maintenance support fees typically account for about 35 percent of a company’s Total Cost of Maintenance. Rimini Street simply takes your most recent support invoice from your software vendor and cuts the amount in half. But this amount represents only about a third (33%) of your potential total maintenance savings over time with independent support.
Upgrades and Enhancement Packages	27%	“Forced” product upgrades are often the largest expense incurred to retain enterprise software support. By enabling you to delay or avoid costly product upgrades, independent support frees up budget so you can maintain staff levels and invest in strategic technologies that meet your evolving business requirements. Software vendors also try to hide true upgrade costs with various feature and enhancement packages.
Customization Support	22%	With standard vendor support, you are on the hook to support your customizations at your own expense. Rimini Street Support covers your software as it has evolved in the real world and exists today, including all your modifications. For a highly customized software environment, the savings can be the equivalent of one or more FTEs or the elimination of a third-party consulting expense.
Maintenance Resources and Processes	18%	Your IT staff spends costly time supporting your enterprise software. Independent support providers offer personalized support methodologies that let you redeploy valuable resources or achieve resource savings. For a complex software environment, the cost savings can be the equivalent of several FTEs.
Total Maintenance Savings	100%	

Calculating Your Potential Savings From Independent Support

Rimini Street guarantees it will cut your vendor maintenance invoice in half, but as the table above demonstrates, that’s only about a third of your potential savings. Many companies realize savings approaching 90 percent of their total maintenance spend. To quickly calculate the savings your company can expect with Rimini Street, go to <http://www.riministreet.com/savings>.

Bringing It All Back Home: Who's In Control? You or the Software Vendor?

From a total cost of maintenance point of view, switching to independent support is a no-brainer. But many CIOs have been so trained by the software vendors over the years to constantly stay current that sometimes they can have a hard time imagining a future without vendor support.

Here's the crux: with the mature, robust, stable ERP systems we are using today we are the beneficiaries of decades of continuous development and improvement by thousands of the brightest engineers in the industry – and consequently there is seldom, if ever, a good business case for an upgrade.

CIOs need to ask themselves:

- Do I have to stay current to have the best quality maintenance in the world? (You don't.)
- The vendor seems to be telling me I have to spend all this money just so I have the right to stay supported. Is that true? (No. Both Oracle and SAP have affirmed the right of customers to choose their own maintenance provider.)
- How much better off would I be if, instead of spending \$2 million for an upgrade, I put \$2 million into customizing my application to really meet the needs of my organization, or implementing the “other” two-thirds of my licensed applications – all the stuff that I never got around to implementing in the first place on the current version I'm on because I'm always scrambling to stay current? (You'd be a lot better off.)

Take Back Control: Reject Change for the Sake of Change

“We wanted more value for our annual support fees, not just lower fees. We needed more responsive and comprehensive service and support to maximize the value of our PeopleSoft investment. Rimini Street has delivered a level of value and service that has exceeded our highest expectations.”

– CIO, Santa Fe Natural Tobacco Company



The members of the upgrade ecosystem are preaching the gospel of change as a way to keep their coffers full, even though they too are fully aware of the feature-rich 20–30-year-old mature enterprise software in your organization – software that is already so deep with functionality that any new release rarely adds to your company’s top-line revenue or reduces your bottom-line expenses. In fact the exact opposite happens: when you upgrade, expenses are increased significantly without increasing competitive advantage for your company.

(Recall the example of the CIO who upgraded his PeopleSoft system only to find there was no business reason for having done so – and in fact the performance of his upgraded system was worse than his old system, requiring him to spend money on expensive hardware upgrades that still left him with a slower ERP than he had before upgrading!)

Many of these hardware vendors and systems integrators are great companies delivering great products and services. But they are complicit in the treadmill of constant change going on today and they have a responsibility, as do you, to be good stewards of your company’s precious IT dollars.

Today, a new breed of CIOs and CFOs is demanding a new kind of accountability before approving any unnecessary upgrade projects. You, too, can reject change for the sake of change, thereby taking back control of your own IT destiny and freeing up budget for innovation and business process improvement.

“According to a recent survey conducted by Computer Economics, when it comes to the cost and quality of Oracle’s maintenance, 42% of Oracle customers are dissatisfied with the quality of Oracle maintenance and support and 58% are dissatisfied with the cost of Oracle’s maintenance and support.”

– “Enterprise Software Maintenance Fees – Oracle vs. SAP,” December 7, 2010



Conclusions

You Have More Money Than You Think – Just Stop Giving It to Vendor “Entitlements”

A good rule of thumb is that around 30 percent of the total cost of ownership (TCO) of an ERP system over a five-year period is due to the implementation and acquisition costs of the system. The ongoing support costs, upgrade costs and maintenance make up the remaining 70 percent of TCO for ERP. Therefore, it stands to reason that if you could reduce your ongoing maintenance and upgrade costs over time, you could free up a substantial amount of money that you could use either to simply reduce costs – or to actively make the improvements most organizations never get around to because they are constantly scrambling to “stay current.”

Look at Your Annual Maintenance Spend – And Discover a Gold Mine

ERP is costly because two-thirds of IT spend is allocated to simply maintaining the existing technology. And CIOs seldom look at support and maintenance budgets as ways to reduce their overall costs.

The real questions your organization needs to ask are:

- Why are we not focused on reducing ongoing costs and instead are contemplating maintaining or even increasing the amount of money devoted to support and maintenance?
- Can we really afford to do nothing – to continue to do business as usual, keeping the lights on and doing nothing innovative when 70 percent of what we spend on ERP is just for maintaining the status quo?

You Can Take Back Control!

The economic pinch is not going to go away anytime soon. IT spend is on the decrease in most organizations, CIOs have to do more with less, and maintenance is an area in which until the mid-2000s there was no option other than vendor annual support.

Today CIOs are realizing that new initiatives, if there are going to be any, can in fact be funded by saving money by reducing costs on ERP support and maintenance over time. All that is needed is a deeper understanding of all the elements and a willingness to think outside the controlling box the vendors have built for their ERP environments.

And that’s how you can take back control: by radically reducing your support costs – thereby freeing up funds, time and breathing space to chart your own IT and ERP destiny.

