Upgrade Strategies and Third-Party Support

Taking Back Control of Your Enterprise Applications Road Map

Rimini Street®
Redefining Enterprise Software Support ™

Contents

Executive Summary

A comprehensive strategy for your enterprise application software focuses not only what you are delivering today for your users but also anticipating future business needs, including requirements for future software releases and application platforms. Traditionally, and without question, software licensees retained software vendor annual maintenance contracts and upgraded as each new release was made available. Industry analysts, advocating close ties between the licensee and the software vendor, recommended staying on the very latest software releases – and indeed, this was frequently a necessity anyway given the immaturity of application suites.

Software vendors enjoyed the status quo and eventually began to view annual maintenance fees as an entitlement or right, ultimately taking advantage of their position to increase support fees to as much as 22 percent of license fees. Software licensees, lacking other support options and recognizing their subordinate position, lost control of their upgrade strategy and simply fell in line, paying increasing support fees and diligently deploying new releases, frequently without rigorous return-on-investment (ROI) assessments.

Over time, the maturation of application software suites, the increasing costs of maintaining and upgrading systems – and the development of new software platforms and technologies, including Software-as-a-Service (SaaS) and Service Oriented Architecture (SOA) based systems – have complicated the process for evaluating and setting application upgrade strategies. The introduction and adoption of third-party support as a replacement for software vendor annual support has further expanded the set of options available to software licensees in determining their corporate application road maps.

Despite hundreds of software licensees switching to third-party support, there is a widespread misconception that switching to third-party support is a non-strategic, dead-end strategy solely for end-of-life releases with no refresh or upgrade paths available in the future. The facts speak otherwise: as this white paper explains, third-party support helps clients take back control of their upgrade strategy, giving them *more* flexibility and options in managing their application road map.

Upgrade Strategies and Third-Party Support

Determining The Value of Upgrades

Why Do We Upgrade?

"To upgrade or not to upgrade" is an ongoing dilemma facing enterprise application software licensees. While vendors promote the concept of upgrading to stay current on support and retain the right to future releases, according to Forrester Research, "Most business and IT execs put off upgrades for as long as possible to avoid costs and minimize business disruption."[1]

Historically, enterprise software clients have upgraded for a number of reasons:

- **New release functionality.** New application releases may contain features and functions that extend or enhance business processes.

- **Compliance.** Applications such as payroll need to be kept up-to-date with the latest tax, legal and regulatory updates.

- **Pressure from the vendor.** Vendors may stop supporting older releases, or may charge more to support older releases than the current release. Upgrading may bring some support cost relief.

- **Early technology adopter philosophy.** Early adopter organizations want the most current, cutting-edge innovations; more conservative adopters are content to wait for new application releases and platforms to be real-world tested before moving to the latest.

- **Market and career pressures.** Information technology executives and managers may wish to advance their careers by orchestrating upgrades to the most contemporary, modern technologies. Likewise, management may wish to upgrade the IT environment so as to remain an attractive employer to engineers who wish to stay current with their skills.

Questions to Ask About the Value of Upgrading

While the reasons for upgrading given above may be legitimate for some enterprise software clients, the playing field has changed since the days when significant must-have functionality was introduced in every major application release (see below, "Upgrading: Not What It Used To Be").

The difficulty of justifying the cost and resources required to upgrade is reflected in the title of a recent Forrester Research report, "Application Upgrades: How To Make Upgrade Decisions When Business Value Proves Elusive."[3] Today, it is prudent to ask the following questions before continuing down the traditional upgrade path:

End-of-Support Deadlines Drive Upgrades

"Vendor-imposed end-of-support deadlines were one of the driving forces for considering an upgrade for 95 percent of the respondents who are considering upgrades."

–R. "Ray" Wang, Forrester Research, May 29, 2008[2]

Are You Paying for Upgrades You May Never Use?

"Paying far in advance for upgrades that are seldom utilized makes less sense in today's economy."

–Forrester Research, February, 2009[1]

Upgrading: Where's the Business Case?

"The most common reason we hear for deferring an upgrade is the lack of a convincing business case … If the upgrades aren't delivering value … [then] don't upgrade the package. This scenario can be supplemented with third-party support for break-fix and compliance updates."

–Forrester Research, June 25, 2010[4]

Enterprise Application Upgrades Face Increased Scrutiny

"We believe ERP upgrades, the primary motivation to pay maintenance fees, are on the wane because it's a mature market. Vendor investments in R&D are on the decline, innovation is lagging and redeployment costs are multiples of the license fee. As a result, customers are increasingly questioning the value of paying annual maintenance fees of 20 percent of the cost of the original license for the occasional use of technical support."

–Cowen and Company, September 25, 2009[5]

- **Is there a solid, convincing business case for the upgrade?** What are the real, quantifiable IT cost savings and business process benefits of the upgrade? What is the expected ROI?

- **Is there real value in the release's enhanced functionality?** Again, is there a compelling business case for adopting the new features and functionality, or are they merely "nice-to-haves"? Are you trained to deploy new releases despite diminishing returns?

- **Does the upgrade represent the deployment of technology for technology's sake?** Are alluring technologies driving the technical team to adopt expensive new releases while business users see no benefit? Are little-used technical enhancements slowly locking you into the software vendor's technology stack?

Upgrading: Not What It Used To Be

A bit of historical background helps to put current upgrade options in perspective:

- **Today's software is incredibly mature and stable.** In the 1990s and early 2000s, enterprise software clients regularly upgraded because each new major release offered major new functionality covering essential business processes. This is no longer the case. Current software platforms are 20+ years old, extremely mature and proven across billions of transactions worldwide, and can run businesses for the next decade or longer. (For example, SAP ported its mainframe R/2 product to its client/server R/3 product in the early 1990s and to Internet architecture around 2000, but much of the underlying ABAP code remained the same.)
- **Every major and minor business function has been automated in the leading software platforms over the past two decades.** Current software releases more than meet the needs of even the most complex organizations. In fact, many organizations only use 20–30 percent of the available functionality. This means that incremental releases provide limited new functionality; they do not provide meaningful ROI.
- **Innovation is coming from smaller, more agile firms, not ERP providers.** Leading ERP companies are encumbered with supporting and maintaining existing applications as well as attempting to build a future generation of software. True innovation that you can deploy and utilize today to create a competitive advantage is coming from nimble, cutting-edge firms dedicated to creating modern solutions that work in concert with your current enterprise software backbone.

Technology Shifts Happen: The Days of Vendor Entitlement May Be Numbered

Software Maintenance Is Enormously Profitable for the Vendors

"Software giants such as Oracle and SAP charge as much as 22 percent of the value of an initial license for annual support … Profit margins on support can be upward of 90 percent, according to industry estimates."

–The Wall Street Journal, *November 30, 2010*[6]

It's a Long Road to the Next Platform

"Companies starting down a path toward SOA should expect the entire project to take at least 15 years to complete …"

–Anne Thomas Manes, Burton Group, *August, 2006*[7]

The state of enterprise application software today is fluid and dynamic, with boundaries and alliances constantly shifting due to new technological developments and M&A activity. Older, established vendors are trying to retain clients and convince them to keep investing in future releases and platforms through annual maintenance fees on existing releases – while newer, more disruptive firms such as Salesforce.com and Workday are pushing the boundaries of fresh, innovative technologies such as SaaS.

In terms of maintenance fees, the status quo today is the same as it's been for the past decade and a half or more: clients are asked to accept, without question, that the vendor is entitled to hefty annual maintenance fees, because the vendor is taking that money (which accounts for more than half the vendor's total annual revenues) and engaging in research and development for the client's future benefit.

The following factors underline the paradigm shift now underway from vendor entitlement to software licensee empowerment:

- **Next-generation software platforms will not be ready for 5–8 years and will require a full reimplementation.** Future software platforms, like Fusion, take many years to fully develop and deploy as a complete enterprise software suite. With no guarantee on time line or functional content, paying maintenance fees in anticipation of a next-generation platform is a significant risk. Additionally, analysts have stated that next-generation platforms like Fusion will require a full reimplementation and will likely require additional license fees.

- **Maintenance fees consume budget that could address innovation and competitive advantage.** Enterprise software licensees that opt for third-party support use the significant cost savings to retain headcount and fund strategic investment in IT initiatives such as innovating "around the edges" of their core legacy ERP systems with Web 2.0 technologies, SaaS, virtualization and so on.

- **Enterprise software licensees' current maintenance fees are paying for the development of future releases they may never use.** There is no guarantee that new platforms and enhancements will meet your business needs; and It is a matter of historical fact that major new platforms and applications are typically introduced with significant quality wrinkles that can take years to get ironed out.

Recognizing that innovation is not forthcoming from the large software vendors, or at best coming at a glacially slow pace, organizations are balking at paying for upgrades they may never use or need, and are looking to third-party support providers for significant cost relief.

What Enterprise Software Clients Want in an Enterprise Applications Road Map

To sum up the previous discussion: traditionally, the vendor has felt entitled to lock the client into a particular support schedule and upgrade path. But today, many enterprise software clients, having accepted this "vendor entitlement" model for years, are calling the status quo into question and demanding a choice of maintenance and support providers.

The CIO, the IT team, the business user and procurement/finance may have somewhat different angles on upgrading, but ultimately, enterprise software clients are looking to formulate an upgrade strategy that will result in:

- Full functionality for business processes

- Flexibility in formulating the future enterprise applications road map

- ROI/real business value

- Reduced risk of committing to new releases and platforms before they're ready

- Optimized cost savings

- Alignment of cost with return

For organizations running today's mature, highly functional enterprise application software that will remain stable for a decade or longer, new support options are available: as explained below, by leveraging third-party support, enterprise software licensees are taking control of their upgrade strategies, while saving 50 percent or more on annual maintenance fees.

Third-party support helps organizations accomplish these objectives and thereby proactively manage their enterprise applications road map.

How Third-Party Support Enables Your Enterprise Applications Road Map

Run Your Current Release for Many Years to Come

With third-party support, enterprise software licensees gain flexibility and choice because they make their own decisions on how long to run releases. Clients extract the maximum possible return from their investment in their current enterprise software while saving up to 90 percent on their Total Cost of Maintenance (TCM – see "Saving Up To 90 Percent on Total Cost of Maintenance" below). Leading third-party support providers will support current stable, mature releases for 10 years or more and provide all needed fixes as well as all critical tax, legal and regulatory updates needed for compliance.

Current Software Releases Can Run Businesses for a Decade or More

Fact: The City of Flint, Michigan is running a 13-year-old enterprise software release on third-party support and plans to run it for at least another five years.

Retain the Right to Upgrade

Third-party support clients commonly use two strategies to retain the right to upgrade:

- **Take possession of releases currently available from the vendor, safely archive them, and then upgrade to those releases – when ready.** Clients who have licensed but are not yet running the very latest available releases can take delivery of all available releases and preserve the ability to upgrade to these releases if and when the organization determines this is the appropriate strategy.

- **When new releases, platforms and systems become available, acquire and deploy them as needed – when ready.** For future releases not yet available (like Oracle Fusion), third-party support clients plan to run their current releases until those new releases are truly ready, then use a portion of the savings from third-party support to acquire their next-generation system once the releases are fully tested and available. This may be Fusion or it may be another software application that is a better fit at that time: third-party support clients have the flexibility to select the best new system from all available options, and to defer this decision until ROI, budget, business requirements and other factors support the investment.

How Third-Party Support Helps You Take Control of Your Upgrade Strategy

Independent Research Validates Third-Party Support Savings

"Organizations should carefully consider the return on investment from their software license maintenance fees and explore options that may deliver greater return on investment. Rimini Street customers found significant cost savings and were taking advantage of the next few years' savings to explore other technology options for future investment."

–*Nucleus Research, June, 2010*[1]

Enterprise software clients can use a portion of the savings from utilizing third-party support to relicense their applications (if they choose to return to vendor support), or to acquire their next-generation system once the releases are fully developed, tested and available. The rest of the savings can be used to retain headcount and fund innovation.

Third-party support enables organizations to retain the right to upgrade while saving on support costs and stabilizing on a proven, mature enterprise software platform. Third-party support lets you:

- Reduce risk
- Save up to 90 percent on Total Cost of Maintenance (TCM)
- Avoid vendor lock-in
- Enable innovation

Let's look at each of these benefits of third-party support in turn.

Reducing Risk

Third-party support lets you maintain flexibility and keep future options open to select the system that best fits your business. Also, you avoid the risk of paying now for untested future releases you may never use – new platforms and enhancements may not meet your needs or may have quality issues. With third-party support, you negotiate major technology shifts according to your own time line and business imperatives, not your software vendor's.
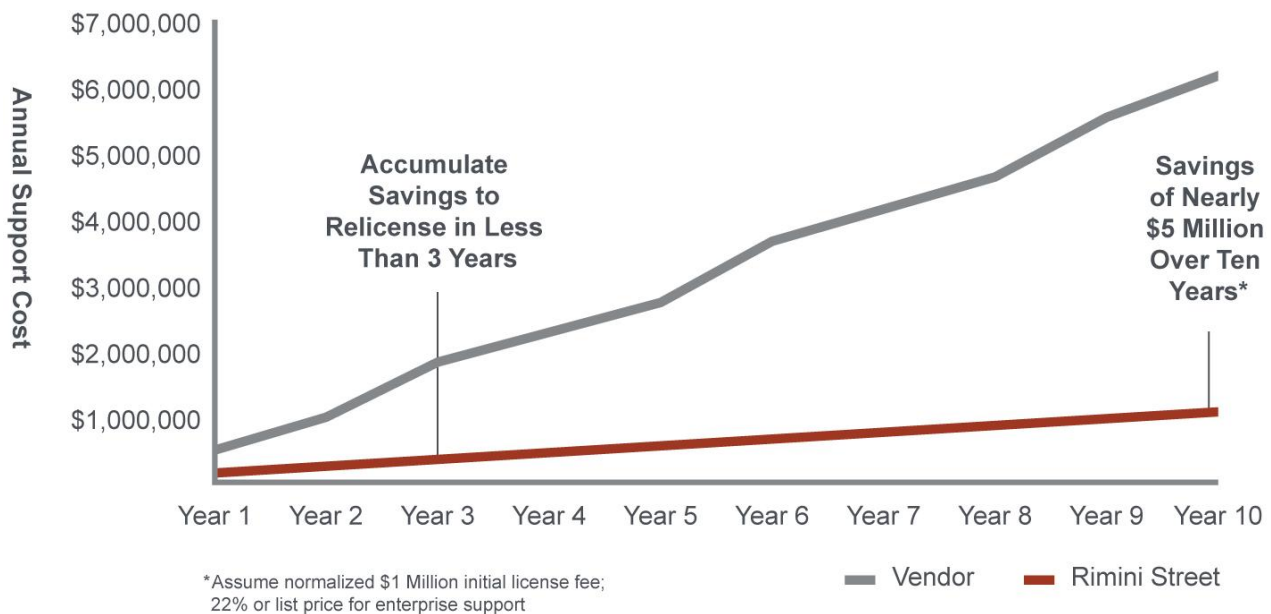
Saving Up To 90 Percent on Total Cost of Maintenance (TCM)

Enterprise software companies now typically charge 22 percent of license fees for annual support, plus annual adjustments for "inflation," which means that licensees are effectively rebuying their applications every 3–4 years through annual support fees. With third-party support, total savings usually surpass the cost of completely relicensing within 3 or 4 years (see diagram below).

Third-party support clients accrue savings year over year from three primary categories:

- At least 50 percent savings in annual support fees
- More efficient support processes
- No forced expensive upgrades

The following graph shows a cumulative Total Cost of Maintenance (TCM) comparison based on initial license fees of $1 million and software vendor annual maintenance fees of 22 percent. Over 10 years this hypothetical client will save $4,831,997 with Rimini Street third-party support and its TCM will be reduced by 83 percent.

Total Cost of Maintenance (TCM) Reduced by Up to 90 Percent

Calculate Your Savings

Use Rimini Street's online snapshot savings calculator to instantly see how much you can save with third-party support:

http://www.riministreet.com/snapshot_savings.php

Avoiding Vendor Lock-In

Third-party support gives enterprise software licensees unprecedented control over their upgrade strategy. Unlike leading third-party support providers, the big software vendors:

- **Force upgrades.** Software vendor support policies limit the time period for which licensees will receive full support for their release, forcing licensees to perform expensive upgrades or pay extra fees to receive full support.
- **Reduce support over time.** To push licensees to upgrade, software vendors provide fewer support features for older releases.
- **Charge penalty fees.** Typically five years after a release is generally available, just when the release is most stable and less expensive to run and support, the software vendor will begin charging penalty fees on top of standard annual support fees.
- **Utilize vendor lock-in strategies.** Software vendors impose architectural restrictions and seed new technologies in order to lock current licensees into their software platforms and solutions. According to a recent Forrester Research report, "In some cases, upgrading to a new release will impose certain architectural constraints, or lock-in, to the extent that it may make the upgrade unpalatable."[9]
- **Offer new releases with limited ROI.** Current software releases are so mature that there is no major missing functionality. New releases include primarily cosmetic and low-value "nice-to-have" enhancements, along with tax, legal and regulatory compliance updates.
- **Package new capabilities into new modules.** Any significant new functionality is packaged as a new module that needs to be licensed regardless of whether the licensee is on vendor maintenance or not.

Enabling Innovation

Far from being a "dead-end" strategy, third-party support is an "on-ramp" approach that helps organizations develop more agility and independence in adopting new, innovative technologies. The real dead-end strategy is to continue to blindly pay the vendor's exorbitant annual maintenance fees, with no guarantee that those fees are going to result in significant innovation within a reasonable time frame.

When you stabilize on your current release with third-party support, you free up funds to enable strategic investment in innovative IT initiatives. Many organizations are moving to a strategy of innovating with SaaS and other technologies "around the edges" of their mature, robust, stable enterprise applications, rather than expecting (and paying steep annual maintenance fees for) significant innovation from the vendor and regularly upgrading the core system itself.

The Vendor Support Model Is Broken

"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 percent a year of software 'license value' … "

–Vinnie Mirchandani, Deal Architect*, September 26, 2010*[8]

Innovation Is Coming from Smaller, More Agile Firms

"Despite hundreds of billions 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 … Innovations came from the consumer tech side and next-generation solution providers." [10]

–R. "Ray" Wang, SoftwareInsider*, October 4, 2010*

Everyone Upgrades Apps or Platforms Eventually — With Third-Party Support, the Client Is In Control

It's understandable why many enterprise software clients that wish to retain the right to upgrade initially have misconceptions about the third-party support concept. In the traditional status quo, enterprise software clients have been trained to pay unquestioningly for upgrade rights through vendor maintenance fees and have always upgraded when the vendor told them to.

Third-party support offers a different model – a genuinely new and different alternative.

Naturally, you don't want to give up upgrades. Whether using traditional vendor support, self-support or third-party support, *all* enterprise software clients will eventually upgrade their applications or move to a new application platform. Technology shifts happen, with the leading legacy vendors of the day often being swept up into the dustbin of history (recall how Dun & Bradstreet's thriving mainframe application business was effectively wiped out by the onslaught of client/server architecture in the early 1990s).

Only the third-party support option gives you the ability to time upgrades according to *your* needs and funding demands, and to *choose* the vendor that delivers the next-generation application software most appropriate to *your* organization's specific business needs.

Appendix: Case Study

SFN Group Takes Control of Upgrade Strategy, Mitigates Risk with Third-Party Support from Rimini Street[11]

Heavily Modified PeopleSoft 8.x Applications More Than Meet Business Needs

SFN Group has been live on PeopleSoft since 2003. The company's IT team has heavily customized the system with industry-specific functionality and performance enhancements, particularly in the billing, staffing front office, HR, payroll, and time and labor areas.

Resisting Vendor Pressure to Upgrade

Steep vendor annual maintenance fees were a recurring frustration, and SFN's negotiations with Oracle for a reduction in support costs proved fruitless. Said SFN's Vice President of Information Technology Paul Tymchuk, "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 – upgrading SFN's PeopleSoft applications would cost an estimated $15 million, take 12–18 months, and represent an enormous and unacceptable business disruption."

Upgrading on SFN's Own Terms, Not the Vendor's

By moving to third-party support with Rimini Street, SFN is mitigating upgrade risks by keeping its future options open, and is avoiding the business liabilities of upgrading to unproven platforms.

Tymchuk is planning to assess his next upgrade options in 2013. His plan is to take a portion of the savings from Rimini Street support, assess all the available options that meet his requirements, and select his upgrade step. This could be SFN's current PeopleSoft system, but may instead be a new option such as SaaS, for example.

Ensuring Compliance with Proven Tax, Legal and Regulatory Updates

To pay its 45,000 employees every week and create 160,000 W-2s at year-end, SFN needs confidence that its PeopleSoft Payroll system is continuously maintained with the latest critical tax, legal and regulatory updates. SFN Senior Manager of Application Development Merrill Tritt observes, "Rimini Street's tax, legal and regulatory updates are accurate, complete, and delivered in a timely fashion. We have never had a single issue with anything delivered in a Rimini Street update."

"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."

–Paul Tymchuk, VP Information Technology, SFN Group

Client Profile: SFN Group (NYSE:SFN) is a strategic workforce solutions company that provides professional services and general staffing to help businesses more effectively source, deploy and manage people and the work they do. SFN serves approximately 8,000 customers, from Fortune 500 companies to a wide range of small and midsize organizations. SFN pays 45,000 employees per week, which translates into 160,000 W-2s per year.

Industry: Staffing and professional services

Revenue: $1.7 billion

Employees: 160,000

Applications: PeopleSoft HCM 8.3 SP1 including Staffing Front Office and eRecruit, FSCM 8.4 and EPM 8.8

Operating System: AIX

Database: DB2

About Rimini Street, Inc.

Rimini Street is the leading third-party provider of enterprise software support services. The company is redefining enterprise support services with an innovative, award-winning program that enables Oracle and SAP licensees to save at least 50 percent in annual support fees and save up to 90 percent in total support costs over a decade. Clients can remain on their current software release without any required upgrades or migrations for at least 10 years. Hundreds of Global, Fortune 500, midmarket and public sector organizations from virtually all industries have selected Rimini Street as their trusted, independent support provider.

To learn more, please visit www.riministreet.com or call within the USA (888) 870-9692 or internationally +1 (702) 839-9671.

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Endnotes

[1] Paul D. Hamerman, "Application Upgrades: How To Make Upgrade Decisions When Business Value Proves Elusive," Forrester Research for Business Process Professionals, June 25, 2010, p. 1.

[2] R. "Ray" Wang, "Enhancement Packages Improve SAP Upgrade Value," Forrester Research, May 29, 2008, p. 4.

[3] Paul D. Hamerman, "Application Upgrades: How To Make Upgrade Decisions When Business Value Proves Elusive," Forrester Research for Business Process Professionals, June 25, 2010.

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[7] Anne Thomas Manes, Burton Group, quoted in Mark Brunelli, "SAP, Oracle take distinct approaches to SOA," SearchSAP.com, August 29, 2006, http://searchsap.techtarget.com/news/1212980/SAP-Oracle-take-distinct-approaches-to-SOA, accessed January 27, 2010.

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[10] R. "Ray" Wang, "Research Report: How The Five Pillars of Consumer Tech Influence Enterprise Innovation," *SoftwareInsider,* October 4, 2010, http://blog.softwareinsider.org/2010/10/04/mondays-musings-how-the-five-consumer-tech-macro-pillars-influence-enterprise-software-innovation/, accessed January 27, 2011.