Rethinking Your ERP Support Strategy

In this paper, you will learn:

• Reasons why IT professionals are looking to cut costs and where.

• Why organizations are questioning the value of their current software support provider?

• TCO analysis of current support strategy vs. a third-party support provider model.

• Benefits and overview of third-party support model.
<table>
<thead>
<tr>
<th>TABLE OF CONTENTS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>THE HIGH COST OF SYSTEM MAINTENANCE .......................................................... 3</td>
</tr>
<tr>
<td>2010 IT CHALLENGES ..................................................................................... 3</td>
</tr>
<tr>
<td>GLOBAL MARKETS ......................................................................................... 3</td>
</tr>
<tr>
<td>HEADCOUNT REDUCTIONS .............................................................................. 3</td>
</tr>
<tr>
<td>PROVING A RETURN ....................................................................................... 4</td>
</tr>
<tr>
<td>TECHNOLOGY OBsolescence ............................................................................ 4</td>
</tr>
<tr>
<td>THE HIGH COST OF MAINTENANCE .................................................................... 4</td>
</tr>
<tr>
<td>2010 IT PRIORITIES ....................................................................................... 4</td>
</tr>
<tr>
<td>RE-THINK YOUR ERP SUPPORT STRATEGY ..................................................... 6</td>
</tr>
<tr>
<td>WHAT IS THIRD-PARTY SUPPORT? ................................................................. 10</td>
</tr>
<tr>
<td>IS THIRD-PARTY SUPPORT RIGHT FOR YOU? ................................................ 10</td>
</tr>
<tr>
<td>BENEFITS OF THIRD-PARTY SUPPORT .......................................................... 10</td>
</tr>
<tr>
<td>NEXT STEPS .................................................................................................. 12</td>
</tr>
</tbody>
</table>
THE HIGH COST OF SYSTEM MAINTENANCE

It’s a new year. You have a new budget and a new set of priorities. Your organization is tasked with executing initiatives on an ever-shrinking budget. Challenges arise in every part of the organization but the pressure on IT to execute is greater than ever. Today more than ever, decision makers must make the most of scarce resources and at the same time respond to ever-increasing demands for improved performance and new technology.

This paper looks at the challenges IT departments face in this new economy and offers some ways to maximize your enterprise software investments, in particular, when it comes to ERP software maintenance.

2010 IT CHALLENGES

It’s not over yet. Improving? Certainly, but it appears we have a ways to go. The recession forced a lot of changes in organizations. While cost containment has and will always be a priority for most companies, the economic meltdown witnessed over the past 24 months has caused enterprises to re-think their IT plans and priorities with a new perspective.

The following are common challenges of particular salience to the IT executive today:

GLOBAL MARKETS

The globalization of world economies has greatly enhanced the value of information to business organizations and has offered new business opportunities. Today, IT is tasked with providing the communication and analytical power that organizations need for conducting trade and managing business at a global level with ease. To coordinate their worldwide network of suppliers, distributors and consumers, organizations have developed global information systems that can track orders, deliveries and payments around the clock. The support infrastructure necessary to sustain these systems is costly.

HEADCOUNT REDUCTIONS

With financial cuts needed in most organizations to weather these tough financial times, one of the first cost containment tactics is to cut staff. You’ve seen the news headlines. Unemployment is at a 27-year high and it does not appear to be getting better as quickly as we had all hoped.

Less IT headcount or not getting to fulfill employment requisitions adds to your challenges in 2010. Your task list did not get shorter, in most cases, it is longer than ever and yet you have fewer people to perform the work. Many companies now have to supplement their skills and staffing with consultants. This approach can be cost effective for specific problems, but finding the right skill set, availability, timeframes, and travel all enter into a staff augmentation decision.
**Proving a Return**

Maintaining these global mission-critical systems and investments is difficult in the best of times, even those with proven returns; but it is nearly impossible in the current economic environment. These competing demands generate significant scrutiny of proposals for new information technology investments. As a result, many IT investment planning processes now require some analysis of the costs and returns expected from that proposed investment. Unfortunately, many technology and business managers often lack models that can guide them through such analyses. Even fewer have the capital to make the investments.

**Technology Obsolescence**

All technology becomes obsolete at some point. This phenomenon is due to changes in business requirements and/or the technology no longer aligns with the business needs (a self-selected obsolescence). Obsolescence is often the result of vendor choice (a forced obsolescence) when hardware or software manufacturers establish a pre-determined “end-of-support” date for a product – the “support” euphemism is the industry’s operative term for maintenance. Each form of obsolescence requires businesses to make investments in new systems.

**The High Cost of Maintenance**

The dictionary defines maintenance as, “The work of keeping something in proper order.” However, this definition does not necessarily fit for software. Software maintenance is different from hardware maintenance in that software does not physically wear out, but often gets less useful with age. Software maintenance is more accurately described as a software vendor’s incremental service of providing software updates and product support to their licensed users.

Enterprise resource planning (ERP) software annual maintenance fees generally range from 18 to 22% of the initial license charges, representing a significant annuity stream for companies such as SAP, Oracle and Microsoft. As an example, Citigroup Global Markets’ reported in its April 2010 market analysis of Oracle Corporation (ORCL) that software maintenance accounted for over 53% of Oracle’s total revenues delivering a contribution margin in excess of 93%. Citigroup further reports that Oracle built this annuity stream largely through acquisitions, with Peoplesoft (including its JD Edwards product family) and Siebel being the most significant contributors to Oracle’s maintenance revenues.

**2010 IT PRIORITIES**

Considering these challenges, it should come as no surprise that a recent survey by CIO magazine asked CIOs what their top management priorities will be for 2010 and 63% of respondents chose “Controlling IT Costs.” This priority is only outranked by “Aligning IT and Business Goals.” A conundrum?
In difficult times, cost containment is often the first tactical step one takes when striving to align IT and business goals. It is certainly justifiable to make fewer purchases during a turbulent economy, but companies cannot avoid spending altogether. IT is still tasked with supporting the needs of the business and that means wisely prioritizing how to spend your IT dollars.

The chart depicts projects that CIOs said they cancelled or postponed last year due to the economic conditions.

Thirty-one percent of CIOs stated they eliminated or postponed enterprise software rollouts in the past year as a result of economic conditions. Not necessarily surprising when you consider the software license cost, training, infrastructure and headcount needed to dedicate to a major ERP implementation. However, these decisions are at odds with the stated priority to better align IT strategy and business goals, as it is well understood that business system investment is critical to an organization’s success. Although tempting, suspending or cutting multi-year projects during uncertain economic times can have long-term consequences on an organization. We suggest an alternative approach.
RE-THINK YOUR ERP SUPPORT STRATEGY

There are many ways that organizations are looking to control their IT costs in the new economic landscape. **Spinnaker Support suggests companies consider reallocating maintenance dollars to higher-return investments such as: people, technology and infrastructure to better serve their global markets.**

**Questioning the Value of Manufacturer Software Maintenance**

The question many software users are asking themselves more frequently is whether these high annual vendor maintenance fees are delivering the intended benefit. This question has become particularly poignant over the past 24 months as executives face the challenges of sustaining their businesses and managing priorities in the worst economy in 27 years.

According to Ray Wang of the Altimeter Group," interest in third-party maintenance (3PM) services from Q3 2009 to Q1 2010, grew 113.8% in one quarter alone. Factors for this increase include:

- **Continuing cost pressures.**
  Budgets continue to be flat or have been reduced. Organizations must do more with less. Add pressures to innovate, CIOs must find fat without trimming bone.

- **Gaining minimal value in maintenance services.**
  Most felt they were paying too much for too little. An eight-point jump reemphasized the issue with a lack of tiered offerings.

- **Declining plans to upgrade.**
  Worsening economic conditions from Q3 2009 to Q1 2010 led to a 27-point increase in interest in 3PM. Expect many respondents to change their point of view as economic conditions improve.

- **Expecting better service.**
  Service continues to play a key factor in decisions to go to 3PM. Over 60% of respondents had experienced poor levels of service.

- **Slowing pace of vendor innovation.**
  More than half of respondents believe their vendor has been too slow to deliver new capabilities. These include SaaS deployment options or key functionality in areas such as strategic HCM and social CRM.

- **Disliking the vendor.**
  About one-third of the survey respondents have had bad experiences with their vendor. Many times it comes from sales person or support rep experiences.

- **Delivering self support.** Almost 30% of respondents already provide their own support. These organizations have no need to pay maintenance when they are doing all the work.
And when it comes to which software vendor’s products top the list for third-party maintenance interest, Oracle, SAP and IBM products make up the top three vendors.
What are you really paying to support your current ERP software?

Citigroup’s analysis of Oracle financials, mentioned earlier in this paper, estimates that the company’s maintenance business accounted for 77% of the firm’s overall profits (93% on a margin contribution basis). To further detract from the Oracle maintenance value proposition, Citi concluded that the company achieved such strong margin results based largely on its JD Edwards, Peoplesoft, and Siebel client base during a time of declining investment in product development for these acquired solutions.

It should come as no surprise that industry analysts suggest CIOs on average are overspending almost 30% on software licenses and maintenance. Couple that with the fact that most ERP software customers effectively re-buy their applications every three to five years through maintenance fees, and you have a lot more executives starting to question the high support fees they are paying.

But industry estimates do not tell the full story. When you start to do the math on what your company is actually paying to support your ERP software, the story takes on a whole new meaning. Calculating a total cost of ownership can open your eyes to your actual maintenance spend.

Total Cost of Ownership Software Support Comparison

Spinnaker Support has developed a simple, straight-forward model to help its clients analyze their software maintenance total cost of ownership (TCO). The following tables highlight a five-year spend analysis based on an average SMB customer, which has acquired a 125-user license for JD Edwards EnterpriseOne software, utilizing core financial and supply chain suite applications. We assumed a 5% annual increase in base maintenance and included one-quarter of a full-time employee (FTE) of staff time to interact with the vendor support organization and researching issues and fixes online, etc. to capture all related costs of supporting an ERP software product.

The first chart below shows a TCO analysis for the same company mentioned above if they stick with their current OEM software vendor’s maintenance program for five years:

OEM Maintenance - 5 Year TCO

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Increase</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$</td>
<td>-</td>
<td>6,250</td>
<td>6,563</td>
<td>6,891</td>
<td>7,235</td>
</tr>
<tr>
<td>Annual OEM Maintenance</td>
<td>$125,000</td>
<td>$131,250</td>
<td>$137,813</td>
<td>$144,703</td>
<td>$151,938</td>
</tr>
<tr>
<td>Staff Time Cost Allocation</td>
<td>$22,500</td>
<td>$22,500</td>
<td>$22,500</td>
<td>$22,500</td>
<td>$22,500</td>
</tr>
<tr>
<td>Annual Spend</td>
<td>$147,500</td>
<td>$153,750</td>
<td>$160,313</td>
<td>$167,203</td>
<td>$174,438</td>
</tr>
<tr>
<td>Cumulative TCO</td>
<td>$147,500</td>
<td>$301,250</td>
<td>$461,563</td>
<td>$628,766</td>
<td>$803,204</td>
</tr>
</tbody>
</table>
As the chart on page 8 shows, the ERP maintenance spend can quickly add up to a sizable chunk of capital for potential re-investment in one’s organization. Simple math suggests that an Oracle customer repurchases its software every 48.24 months – worst case. Others achieve breakeven in as little as 36 months depending on the conditions of their original software purchase such as the number of licenses, staff allocation to support the application, etc.

For companies that operate in a highly dynamic business environment, and therefore maintain a constant system upgrade cycle every 18-36 months, this investment in ongoing maintenance and support makes economic sense. However, for companies that operate in more stable environments and have upgrade cycles greater than 36 months or are operating a highly modified software version that makes it difficult to easily take advantage of software patches or fixes, the TCO of staying with an OEM software vendor’s maintenance program has much weaker economic “utility.” As a result, companies are determining that their current cost of ERP software maintenance greatly exceeds its value.

While some companies choose to maintain their ERP software environment themselves and take on a higher degree of risk, there are software maintenance alternatives available for consideration. Analysts and industry media report third-party software support providers offer a cost-effective, personalized model that is nearly half of what you pay today and should be considered a viable alternative to the traditional software support models you utilize today.

The chart below represents a conservative example of the comparative costs for the same company featured above when they choose third-party support from Spinnaker Support:

### Spinnaker Support Maintenance - 5 Year TCO

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Annual Increase</td>
<td>$</td>
<td>–</td>
<td>$ 3,125</td>
<td>$ 3,281</td>
<td>$ 3,445</td>
</tr>
<tr>
<td>Annual Spinnaker MAintenance</td>
<td>$ 62,500</td>
<td>$ 65,625</td>
<td>$ 68,906</td>
<td>$ 72,352</td>
<td>$ 75,969</td>
</tr>
<tr>
<td>Staff Time Cost Allocation</td>
<td>$ 11,250</td>
<td>$ 11,250</td>
<td>$ 11,250</td>
<td>$ 11,250</td>
<td>$ 11,250</td>
</tr>
<tr>
<td>Annual Support Cost</td>
<td>$ 73,750</td>
<td>$ 76,875</td>
<td>$ 80,156</td>
<td>$ 83,602</td>
<td>$ 87,219</td>
</tr>
<tr>
<td>Annual Support Savings</td>
<td>$ 73,750</td>
<td>$ 76,875</td>
<td>$ 80,156</td>
<td>$ 83,602</td>
<td>$ 87,219</td>
</tr>
<tr>
<td>Cumulative Savings</td>
<td>$ 73,750</td>
<td>$ 150,625</td>
<td>$ 230,781</td>
<td>$ 314,383</td>
<td>$ 401,602</td>
</tr>
</tbody>
</table>

As you can see in the TCO model above, the return is immediate. This company is estimated to save $401,000 over a five-year period. This savings can be re-deployed in a variety of means such as funding a new ERP migration or other technology purchases. The ways to utilize these funds are endless. The significant cost savings of third-party software support are certainly eye-opening, but the overall benefits run far deeper.
WHAT IS THIRD-PARTY SUPPORT?

Third-party maintenance providers such as Spinnaker Support have entered the ERP software market to provide a reliable, economical support option. In a nutshell, third-party software support vendors help enterprises on stable platforms, with little desire to upgrade their software, maintain their current software versions. These providers offer a personalized, proactive highly technical support model at lower costs than traditional software vendors.

Third-party providers also fill the growing demand for a higher-value support alternative. These providers are able to offer more responsive support at a reduced price since they do not have the margin demands of a software OEM, nor do they need to fund new software development.

IS THIRD-PARTY SUPPORT RIGHT FOR YOU?

There are many factors you need to consider when researching if third-party support is right for your company. Here are some common considerations:

- **Mature and Stable Application** – The application has matured to a point where there is little, if any, product engineering effort spent on bug fixes, product functionality enhancement or other technical changes. The user has infrequent needs for the vendor to provide changes to the core application software other than regulatory compliance updates.

- **Customized Environment** – The software is highly customized and therefore your vendor provides no support services for your environment.

- **Software Migration** – You are executing or planning a migration to a new vendor solution, no significant changes or upgrades will be performed on the legacy ERP system.

- **Support End-of-life** – The vendor is no longer providing a full set of support services due to your system reaching its support end-of-life stage. Application break/fix or other support services must be purchased, and the rates from a third party are usually less than the application vendor’s rates.

- **Vendor Dissatisfaction** – The level of service provided by your software vendor is unsatisfactory – responsiveness to inquiries/calls, fix cycle, quality of interaction, etc.

BENEFITS OF THIRD-PARTY SUPPORT

- **Personalized, Proactive Service** – One size does NOT fit all in a third-party support model. Spinnaker Support, for example, has monthly calls with clients to proactively check in on the client’s status. This is in addition to the regular follow-up of previously logged issues.
• **Faster Response and Resolution Times** – Eliminate waiting days or even weeks for responses to your software issues. Spinnaker Support guarantees a 30-minute response window from an expert on all issues. Third-party support provides the needed fix in a timely fashion. Traditional support often forces you to use self-service tools initially and when those fail to provide you with the required fix, you must call into a help desk to log the issue with a technician who cannot assist you. Third-party support eliminates all the hoops you must jump through with traditional support and provides you direct access to the person who can fix your problem.

• **Dedicated Support Engineers** – Spinnaker Support provides clients with a team of dedicated senior engineers who can be reached directly via phone and e-mail. Your traditional software support model does not allow this type of access.

• **Direct Access to Seasoned Technical Experts** – Third-party support organizations are a common place to find engineers who have previous experience working for software vendors. At Spinnaker Support, our support engineers average more than 13 years working with JD Edwards applications. Most were developers and support staff who helped to design and create the original JDE software products. Their knowledge of older product releases can be an advantage as they have a better understanding of the history of software fixes and enhancements through the life of the product, including the newer releases.

• **Re-deploy Your Internal Resources** – Decrease or repurpose internal resources that were assigned to application support internally and put their talents to work on other pressing projects. The most common use of our services is to allow IT teams to reallocate their best and brightest to more strategic projects internally, and let Spinnaker Support resources handle the day-to-day tasks.

• **Cost-Effective Support** – Our overhead and reasonable margin expectations enable us to deliver superior support services at a greatly reduced cost.

• **Invest Savings in Other Critical Areas** – Re-invest your support cost savings into other critical areas of your business. With Spinnaker Support’s services, you pay only for support and not new software development. The savings experienced by our customers are then reallocated to more strategic initiatives for our clients’ businesses.

• **Eliminate Forced Upgrades to Unstable Platforms** – Traditionally, when a new software product rolls out it may take a year or two to work through the bugs. There has been no generational change in enterprise software, and the next is due somewhere between 2015 and 2017. And even when the original code is finalized, it takes time to complete beta case studies and for the products to be adopted globally by the enterprise marketplace. Some software providers even charge you a penalty (up to 20%) to stay on current releases in an attempt to force you to upgrade. Third-party support allows you to maintain your current environment while you wait for new platforms to stabilize.
• **Customizations Supported** – Most enterprises have adapted their ERP software to fit the unique needs of their particular business. These customizations are very important to keep the software running optimally for your organization. Spinnaker Support goes above and beyond to troubleshoot and debug issues with your customizations. We will often pinpoint the cause of the issue and the resulting fix.

• **Tax, Regulatory and Legislative Updates** – For application maintenance changes that were previously provided by the vendor (e.g. tax body and tax rate changes), third-party support providers assume the responsibility for identifying and providing regulatory changes, along with monitoring other legislation that could require system changes.

**TAKE THE NEXT STEP**

Taking a closer look at third-party support can provide you with a more complete look at your current ERP maintenance investment and help you assess whether or not you are getting the value you need from your current provider. If you discover you are not getting what you need from your current support provider, consider Spinnaker Support as your provider of choice.

Spinnaker Support can provide you with a customized TCO analysis of your current software maintenance investment versus what we can save you with our innovative support model. To take advantage of this offer, call **866-269-4878** or email your request to info@spinnakersupport.com.

Learn more about Spinnaker Support’s services by visiting www.spinnakersupport.com.

---

1. Citigroup Global Markets report – Oracle Corporation, April 21, 2010