



A Strategic Timeline for Next-Generation ERP

Today's Rapidly Changing Technology Landscape and the Onset of the Hybrid IT Era Are Driving a Vision for a Next-Generation ERP Platform

▶▶ **A GOLDEN OPPORTUNITY FOR IT-DRIVEN BUSINESS TRANSFORMATION**

IT organizations are striving to be more agile and nimble in today's fast-changing landscape; yet day-to-day pressures, existing organizational structures and traditional IT practices are hampering CIOs' efforts to achieve those goals.

Additionally, the rise of the Internet of Things (IoT) and the power trio of cloud, mobile, and social computing are presenting exciting new possibilities as well as formidable challenges.

All told, it's clear that today's CIOs have a golden opportunity to drive thorough ongoing business transformation within IT — transformation with the potential to deliver new growth for the business as a whole.



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▶▶ NEXT-GENERATION ERP PLATFORMS MUST REFLECT THE REALITIES OF HYBRID IT

CIOs recognize that a hybrid IT strategy, which melds on-premise solutions with cloud-based services, is a powerful catalyst for change in the very near future. However, most are less clear about how to develop a strategic roadmap and optimal timeline for making a smooth transition to hybrid IT as part of a shift toward a next-generation ERP platform.

Next-generation ERP systems must mirror the broader strategy of hybrid IT. Specifically, next-generation ERP will involve the deconstruction of yesterday's monolithic ERP platform into loosely coupled applications that work in concert, some running in the cloud and others on-premise. A core suite of business applications will remain, supplemented by a collection of smaller-footprint, best-of-breed applications.

The vision for a next-generation ERP platform in the hybrid IT era is coexistence and flexibility, with individual solutions based on functional need, ease of use, and agility rather than allegiance to a single-vendor strategy.

▶▶ THE "BIMODAL IT" SCENARIO

A new world order of this magnitude can't possibility materialize overnight. Against the backdrop of these constraints, the concept of "bimodal IT" has emerged — a concept defined by Gartner as follows: "Bimodal IT refers to having two modes of IT, each designed to develop and deliver information- and technology-intensive services in its own way. Mode 1 is traditional, emphasizing scalability, efficiency, safety and accuracy. Mode 2 is nonsequential, emphasizing agility and speed."¹

Rimini Street understands bimodal IT as the development and management of two distinct IT modes that, taken together, can help organizations overcome the inertia of the status quo while supporting agile business practices. In the bimodal IT scenario, one IT group supports core business systems of record, including ERP, with all the

structure and rigor of traditional IT processes. The other IT group operates with a focus on innovation and agility — essential elements for creating effective systems of engagement based on new cloud, mobile, social, and big data technologies.



▶▶ WHY REVISE ERP?

Companies are pursuing a revised vision of ERP to support the hybrid IT era for a number of reasons:

REASON #1: BLOAT AND COMPLEXITY

For one thing, traditional ERP systems are far too bloated and fraught with complex interdependencies that hamper IT organizations' ability to stay abreast of changing business requirements.

REASON #2: THE NEED FOR AGILITY

At the same time, the need for agility has never been greater, as evolving digital business requirements put pressure on organizations to reimagine applications to support emerging business models.

REASON #3: HEAVY RELIANCE ON INNOVATION FROM SLOW-MOVING INCUMBENT ERP MEGA-VENDORS

The current ERP model relies too heavily on ERP mega-vendors for innovation and new functionality, which can often be delivered more effectively and with greater value by alternative providers.

REASON #4: THE INEXORABLE RISE OF "SHADOW IT"

Consider too that "shadow IT"² is on the rise, led by business owners who have no problem breaking ranks with the core ERP platform. These business owners and their groups are actively cherry-picking complementary tools like talent management, recruitment, and expense management software from best-of-breed cloud providers, seduced by their ease of deployment and lower startup costs.

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¹ Gartner, "Bimodal IT," <http://www.gartner.com/it-glossary/bimodal>.

² Wikipedia, "Shadow IT," http://en.wikipedia.org/wiki/Shadow_IT.

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Diversity of ERP Vendors Will Lead to Improved IT Agility

With adoption of cloud solutions and services well under way, analysts expect significant change for the traditional ERP model, which is based on a monolithic suite of software provided by a single vendor. Gartner anticipates “By 2020, fewer than 20% of multinational organizations will continue to plan and adopt an ERP strategy based on a single-instance megasuite.”³

The Single-Vendor ERP Provider Mindset Is Hard to Change

Despite the momentum, many organizations remain on the sidelines, waiting for their ERP vendors to chart a course to a next-generation platform instead of moving forward at their own pace.

Why? For years, companies have been advised to partner with a primary enterprise software vendor and avoid multiple providers. This has led to a forced upgrade march that traps customers into traditional ERP annual maintenance and support contracts, which typically deliver minimal functionality, force expensive zero-value upgrades, and lack any real ROI. According to a 2012 upgrade benchmark survey, 67 percent of respondents said their firms performed upgrades merely to extend their maintenance windows, dwarfing the number of customers (29 percent) who said they upgraded for specific functional requirements.⁴

Do You Really Want to Rip Out Your Existing Monolithic ERP and Replace It with Another Monolithic ERP: SAP S/4HANA or Oracle Fusion?

As the focus shifts to future platforms, ERP vendors are now packaging most of their significant new functionality as separate offerings, requiring customers to make new product license and maintenance purchases beyond what’s covered by standard maintenance and support contracts.

SAP S/4HANA

Case in point: S/4HANA, SAP’s next-generation business suite architected specifically for the HANA

in-memory platform. S/4HANA is considered by analysts to be a transformational shift: it involves an entirely rewritten code line, can be run only on the HANA database platform, requires changes to license and maintenance agreements, and demands a complete makeover of the customer’s platform strategy.

S/4HANA thus potentially becomes an expensive and disruptive proposition, undermining the value it purports to provide.

A Rimini Street Survey Report on SAP Application Strategies revealed similar concerns on the part of customers, with 85 percent saying they were not committed to S/4HANA. Among their top reasons: Lack of a strong business case and unclear ROI (68 percent); an unproven, early-stage product (44 percent); and higher migration and reimplementation costs (36 percent). Moreover, the survey found that 72 percent of SAP licensees are currently using stable, mature ECC 6.0 applications to run their businesses because the current version meets their needs (43 percent) and because it’s cost-prohibitive to upgrade (37 percent).⁵

ORACLE FUSION

It’s a similar story for Fusion, Oracle’s next-generation ERP platform. Rimini Street research found that only 5 percent of Oracle customers planned to use Fusion applications and were instead choosing to remain on their stable and mature applications. “No strong business case” was cited as the number one reason for not moving (54 percent), followed by “Unclear Product Roadmap” (35 percent).⁶

Oracle customers want to continue running their existing stable and scalable applications because they meet their business requirements. There appears to be a reluctance to change for the sake of change. Key questions these customers are grappling with include: “How much investment is Oracle making in our Applications Unlimited products? Are Oracle Fusion Applications mature enough? Is there a business case to migrate to Fusion Applications or should I look elsewhere?”

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³ Gartner, “Change Your ERP and Business Application Support Strategies as You Move to the Cloud,” March 2015. <https://www.gartner.com/doc/2997119/change-erp-business-applications-support>.

⁴ Panaya, “SAP Upgrade Benchmark: Survey Results and Executive Summary,” 2012, panayainc.com/rs/panayainc/images/SAP_Upgrade%20Survey_2012.pdf.

⁵ Rimini Street, “SAP Applications Strategies for 2015 and Beyond,” May 2015. <http://www.riministreet.com/Documents/Collateral/Rimini-Street-Survey-Report-SAP-Applications-Strategies.pdf>.

⁶ Rimini Street, “Oracle Applications Strategies for 2015 and Beyond,” November 2014. <http://www.riministreet.com/Documents/Collateral/Rimini-Street-Survey-Report-Oracle-Applications-Strategies.pdf>.



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Turning Your Vision for a Next-Gen ERP Platform into a Reality

In light of these obstacles, CIOs and ERP leaders must execute a plan to realign their approach to ERP and turn a vision for a next-generation platform into reality. Many are eager to outsource everything to new service providers to get everything into the cloud right away, attracted by a short-term reduction in capital expenditures. While a clean slate may be tempting, analysts recommend a more measured transition in which hybrid cloud and on-premise solutions coexist for the next decade or longer. This is because cloud can actually be more expensive than a traditional on-premise model over a multiyear period.



▶▶ OWN YOUR STRATEGY WITH INDEPENDENT SUPPORT

Instead of making the ERP vendor the ticket to a next-generation business platform, an alternative approach is to leverage independent support as an enabler of the new hybrid reality. Companies can keep their ERP system of record on-premise and move everything on the fringes to the cloud, including new systems of engagement. In this way, organizations select best-of-breed solutions without being force-fed marginally enhanced upgrades or waiting indefinitely until the ERP vendor is ready to move to the cloud or release game-changing functionality.

Funding Transformational Change with Savings from Independent Support

The significant savings enabled by independent support can be redirected to fund many of these new cloud and hybrid IT projects, while freeing IT to focus on innovation efforts instead of low-value, resource-intensive maintenance and support tasks.

50 Percent Savings on Maintenance Fees Is Only the Tip of the Iceberg in Total Savings Experienced by Independent Support Clients

Research from analyst firm Nucleus Research showed that independent support reduces annual vendor maintenance fees by half⁷ — a relief, given that maintenance fees have skyrocketed over the years, soaring from around 15 percent of software license costs in the 1980s to as much as 22 percent today.

The actual cost reduction involved in choosing an independent support plan is just the tip of the iceberg, however. Some companies report saving three times as much by avoiding the costs associated with forced upgrades, along with the no-extra-charge support for customized code offered by independent support providers, plus tangible relief from the resource-draining inefficiencies of vendor support programs.

Independent Support Can Help Avoid Unnecessary, Expensive, Disruptive Forced Upgrades

Independent support can also help customers break the cycle of paying top dollar for upgrades they either don't need or want due to their expense, resource intensity, and overall disruptive nature. In reality, most companies are generally more than two major releases behind the ERP vendor's latest release, according to Nucleus Research.⁸

There are many reasons to avoid jumping on the upgrade bandwagon. Panaya's 2012 SAP Upgrade Benchmark Survey found that for organizations with more than 2500 users, the average upgrade effort required 3350 person-days during a 31-week period at a cost of more than \$1.4 million. Of the companies willing to take the plunge, 67 percent said they did so as part of an extended vendor maintenance program, not because the upgrade satisfied any new functional requirements.⁹

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⁷ Rimini Street, "Research Report: Assessing the Business Case for Independent SAP Software Support," September 2014, <http://www.riministreet.com/research-report-assessing-the-business-case-for-independent-sap-software-support>.

⁸ Rimini Street, "Research Report: Assessing the Business Case for Independent SAP Software Support," September 2014, <http://www.riministreet.com/research-report-assessing-the-business-case-for-independent-sap-software-support>.

⁹ Panaya, "SAP Upgrade Benchmark: Survey Results and Executive Summary," 2012, http://go.panayainc.com/rs/panayainc/images/SAP_Upgrade%20Survey_2012.pdf.



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You Can Still Upgrade After Switching to Independent Support

Migrating from vendor maintenance to independent support doesn't freeze an IT organization from moving forward when the time is right. Companies can still purchase additional licenses or products from the ERP vendor at any point, but with independent support, they are empowered to take control of their own next-generation ERP roadmap, driven by a timeline that matches the individual needs of the business — not the ERP vendor's.

Strategic Timeline — Next-Generation ERP in Action

To illustrate the points presented above, let's map out a 10-year timeline for implementing next-generation ERP enabled by a switch to independent support:

Year 1

Let's assume a company pays roughly \$2 million in annual vendor maintenance fees. By switching to an independent support contract, it benefits from an immediate savings of around \$1 million a year and can count on an additional \$2 million in annual savings by factoring in reductions in related expenses. According to research by Rimini Street, these cost reductions include about \$818,000 attributed to foregoing upgrades; \$666,000 for reduced customization support fees; and \$545,000 from maintenance efficiencies. All in, this model assumes an annual \$3 million maintenance savings that, amortized over 10 years, adds up to a massive \$30 million nest egg that can be redirected toward innovation efforts.¹⁰

Year 3

The business is growing, and it's time to add new licenses to keep up with increasing headcount or to buy new products to meet evolving business needs. That's exactly what a \$13 billion retailer of toys and children's apparel accomplished with Rimini Street independent support for Oracle E-Business Suite applications. Similarly, a \$6.2 billion aerospace manufacturer regularly contracts with SAP to add more user licenses and purchase new products without penalties or

reprisals, despite swapping out SAP support for a Rimini Street plan. It's the same story for a \$300 million nursery distributor, which has maintained a strategic partnership with SAP while under Rimini Street support, benefitting from a reduction in overall SAP maintenance costs from 20 percent to 9 percent of its IT budget.

"I successfully negotiated new SAP licenses on December 31," recounted the CIO of the nursery distributor. "They sold me licenses without maintenance at a discount, so it can be done."

Year 5

As the ERP footprint expands, there's an ongoing need to address interoperability to maximize the lifespan of the ERP platform. Through Rimini Street's Technology Support Services, customers are guaranteed a minimum of 15 years of full support on any software release in use, regardless of whether upgrades are made and in spite of any migrations. Consider the experience of a well-known healthcare brand that was able to future-proof its legacy PeopleSoft ERP applications under Rimini Street Support despite an upgrade to its Oracle database infrastructure. Rimini Street put a game plan together, assessing the healthcare

¹⁰ Rimini Street, "Research Report: Assessing the Business Case for Independent Software Support," March 2015. See <http://www.riministreet.com/research-report-assessing-the-business-case-for-independent-software-support>.





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company's release versions and complex compatibility issues; this enabled the company to integrate new technologies like operating system updates and database changes with assurance that the core ERP platform remained stable.

Year 6

Requirements for core ERP may remain relatively unchanged, but evolving business requirements dictate changes to other areas. Leveraging savings from independent support, organizations like Valspar, Brandeis University, and Univar have been able to innovate around the fringes of ERP, adding best-of-breed packages in areas like analytics, master data management, records management, and CRM when and where they see fit.

"By signing with Rimini Street, I was able to reallocate a significant portion of our total budget to growth initiatives," said Tom Grooms, Valspar's CIO. "Rimini Street's value proposition — the breadth and depth of all the expertise it brings and the willingness to help us be successful — becomes very strategic, almost invaluable."

Year 8

Upgrading to the next version of SAP or Oracle while on independent support is a no-brainer, because providers like Rimini Street maintain upgrades in a client's archive as part of their total service package. That way, an organization can move to the next ERP release when they're ready, not because the vendor tells them it's time. That was the experience of a large global electronics supplier, which continues to buy upgrades to SAP ECC 6 and additional licenses from SAP for divisions across three continents. By switching to Rimini Street support, the firm cut its annual SAP maintenance bill in half, and it is using those savings to fund a comprehensive SAP unification project.

Year 10

At this point, customers can go in a number of directions. They can stay the course with independent support (recouping that \$30 million, on average, in total maintenance savings). They can also return to the vendor and purchase the next set of applications if they decide the timing is right. The third option is to seek an alternative vendor that is more aligned with their vision for next-generation ERP. By choosing the independent support route, companies mitigate their risk, ensuring the availability of options in the event a vendor's new platform fails or does not adequately meet the needs of the business.

▶▶ CONCLUSION

The time is right for organizations to let go of the status quo and devise their own strategies for making the transition to next-generation ERP — while helping to ensure that it's as cost-effective and minimally disruptive as possible. Instead of tying their destiny to a single ERP vendor, organizations can leverage independent support as a key enabler, freeing funds for investment in innovation and growth projects; helping IT take control of the ERP journey; and driving their own vision for the future.

For more on Rimini Street, go to www.riministreet.com.

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