

Extending ERP's Lifecycle with Third-party Maintenance

Enterprise Resource Planning (ERP) software could be considered the brain of an organization; it tracks necessary information used to make decisions and should be the epicenter that guides and enables business processes. It is a vital component of a successful organization and needs to be treated as such.

Like any vital organ, all ERP solutions have a natural lifecycle. Throughout this lifecycle, organizations are going to have to make many choices concerning the solution's long-term viability. Do they need to add more functionality? Is it time to upgrade? Should the ERP solution be replaced? Are there aspects of support that are not being adequately addressed by the vendor or the organization's internal resources? Contracting a third-party provider for ongoing ERP support and maintenance may offer a practical solution to several of these questions.

Aberdeen's research finds that out of all of the ways third-party services can provide enhanced return on investment (ROI), third-party maintenance can provide tangible cost savings when compared to purchasing maintenance support from the ERP vendor. For organizations that are not satisfied with their current level of support, third-party services may also be able to deliver higher quality of services and quicker response times than the solution provider.

This report, based on data collected from three Aberdeen surveys, illustrates some of the reasons that organizations look to third-party maintenance organizations, notes the tangible costs savings to be gained, and provides guidance on what to look for when selecting a service partner.

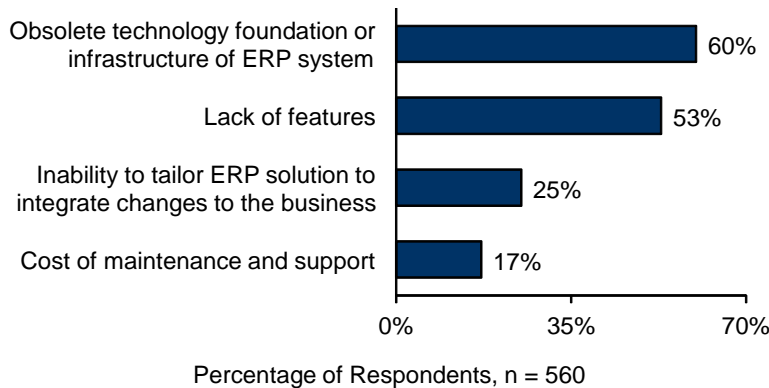
A Rock and a Hard Place: Replace or Upgrade

Maybe the most critical stage of an ERP solution's lifecycle is the time when a decision must be made to maintain, upgrade or replace that solution. Data from Aberdeen's [2012 ERP Benchmark survey](#) as of August 2012 finds that obsolescence is the number one reason for driving this decision (Figure 1).

Analyst Insight

Aberdeen's Insights provide the analyst's perspective on the research as drawn from an aggregated view of research surveys, interviews, and data analysis

Figure 1: Reasons to Replace



Source: Aberdeen Group, August 2012

With the current rate of innovation in today's business world, new technology has a way of replacing old technology faster than expected. While today's business systems do not necessarily lose their functionality, something new may come along that appears to give early adopters a competitive advantage.

But in the case of ERP, early adoption can hinder an organization's ability to compete. Any new ERP undertaking is a substantial commitment, and the resulting disruption to an organization's business could cause it to fall behind competitors. The option of replacing ERP is always weighed against the cost of maintaining an existing system.

On the other hand, in the eyes of the ERP vendor, it can be expensive to continue to support an obsolete product. These vendors have their sights set on selling new software. Therefore, software vendors often decide to discontinue support for certain solutions, despite the needs and desires of users. For enterprises that are relying on vendor support to keep their solutions running efficiently, this forced obsolescence is a problem. These organizations find themselves compelled to make a strategic decision: purchase a new solution from the same vendor, purchase a new solution from another vendor, or stay on their current solution and go elsewhere for support.

Sometimes, an ERP system simply lacks the functionality an organization needs to effectively run the business. This could be because the solution was selected without carefully assessing needs, the competitive environment has changed, or the organization has changed since the original implementation. In other cases, the desired functionality already exists within the software solution, but the company has not set it up. In this scenario, the business does not necessarily need to purchase a new solution, but some careful investigation of requirements will need to be made.

Lastly, 17% of organizations stated that they would replace their ERP software because of the cost of maintenance and support. While these costs are not really "hidden", some organizations do not fully evaluate

maintenance and support costs and how they will impact the Total Cost of Ownership (TCO) of their solution. Reports such as Aberdeen's [*ERP: Is High ROI with Low TCO Possible?*](#) help illustrate just how substantial a piece of the TCO puzzle maintenance costs can be. These organizations are looking elsewhere for a solution that can be purchased and supported at a reasonable cost.

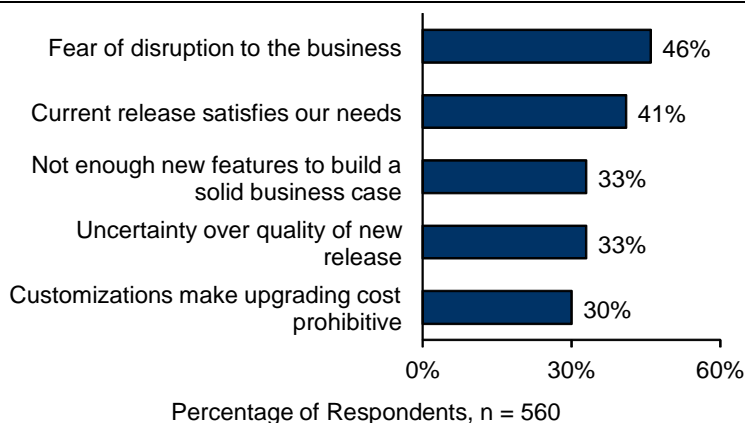
But what if replacement is not an option? Beyond the significant direct costs, a new ERP implementation can disrupt an organization's ability to operate as normal. For example, Aberdeen's [*ERP Implementation and Training: A Guide to Getting Your Business in Gear*](#) found the top pressure impacting an organization's ERP initiative is that the requirement for existing internal resources to divert time away from their daily responsibilities. Further, the same report found that the average ERP project goes 8% over budget and is completed 14% late.

These organizations may best be served by extending their solution's lifecycle and value. But, the risk of an unsupported solution means that these organizations may need to engage a third-party organization to provide maintenance and support.

Upgrades? Do We Have To?

Another critical decision point in an ERP solution's lifecycle is any time an upgrade becomes available. Sometimes upgrades are forced as a part of a company's contract with the vendor. Even when an upgrade offers improved functionality, there are important reasons a business might not want to receive a major software update (Figure 2).

Figure 2: Why Wouldn't You Upgrade?



Source: Aberdeen Group, August 2012

Almost half of the companies surveyed cited a fear of disruption to the business as a reason that they would not upgrade their solution. Another 30% stated that customization makes upgrading cost prohibitive. These two reasons are similar to the reasons organizations gave for not replacing ERP

solutions. But, when upgrades are forced, the costs may cause an organization to look for alternative solutions.

Additionally, some organizations just do not see the value in upgrading their solution. Forty-one percent (41%) indicated that their current release satisfied their needs. Since they are able to get by with their current solution, they feel that there are not enough new features to build a solid business case or they may be uncertain that the new release will truly be better than what they have. These organizations have no reason to make any changes, but still need to ensure that their solution will continue to be supported with bug fixes and security updates.

In this situation, a company can turn to a third-party maintenance service to ensure their software version is continually maintained and will provide value to the organization. At the same time, some of those same third-party organizations have the capability to provide guided recommendations on when an upgrade should be taken because it will truly be beneficial to the business.

Another Option

Aberdeen's reports, such as [*ERP Services: More Bang For Your Buck*](#), illustrate that third-party services are a viable part of an ERP strategy because they help to enhance the benefits derived from ERP and produce superior ROI. More recent data, collected from Aberdeen's [*2012 ERP Selection, Implementation, and Training survey*](#) as of August 2012, shows that organizations utilize third-party services for a wide variety of processes, from implementation through the end of an ERP solution's lifecycle (see sidebar).

These organizations choose third-party services because providers can leverage the knowledge gained from similar projects to construct and drive successful ERP strategies. Additionally, third-party services are appealing to companies that lack the internal IT resources required to support an ERP solution. Despite the traction and increased adoption of these services, not every third-party support offering is favored by all organizations.

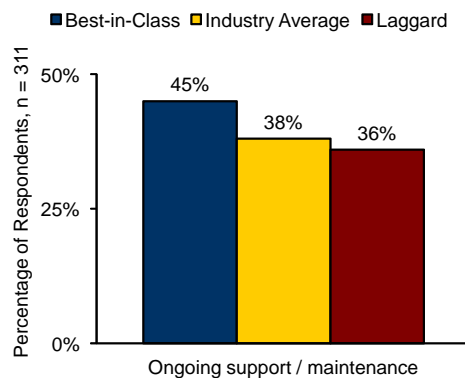
Perhaps because it is an alternative to some of the quandaries listed above, Best-in-Class organizations are more likely than Industry Average and Laggard companies to rely on a third party for ongoing support and maintenance (Figure 3). These support services can include monitoring of system performance, backup and recovery, system modification, troubleshooting, and ongoing coverage. Relying on a third-party organization that specializes in this level of support can ensure that these important processes are attended to. Third-party support services include break / fix and should not be confused with other support services such as hosting, managed services, or co-hosting.

Service on the Menu

Aberdeen's [*ERP Selection, Implementation, and Training survey*](#) identified the top ways in which organizations are using services:

- ✓ 49% system implementation and configuration
- ✓ 43% system integration
- ✓ 42% software customization
- ✓ 41% ERP training
- ✓ 40% analysis of business processes
- ✓ 38% on-going support and maintenance

Figure 3: Best-in-Class Maintenance Support



Source: Aberdeen Group, August 2012

Why Third-party Maintenance?

What are some of the main reasons Best-in-Class organizations are looking to a third-party provider for ongoing maintenance and support? Data from Aberdeen's [2012 ERP Benchmark survey](#) as of August 2012 found that 6% of organizations cited discontinued support of their ERP solution by their vendor as one of the top two reasons that they are unable to get the full value out of their ERP solution. Moving from extended support to sustaining support – sometimes at a significant cost premium – may be unacceptable to these organizations.

Another reason that organizations look to third-party maintenance and support is lack of internal IT resources. Indeed, 57% cited a lack of internal resources as one reason keeping them from getting the greatest benefit out of their ERP solutions. For these organizations, third-party support can help fill the gap.

It is fair to surmise that many organizations are simply unhappy with the support provided by their ERP vendor. Almost a third – 30% – of the businesses surveyed noted a lack of response from their ERP vendor as a reason for delayed ERP projects. In this case, it may be time to look elsewhere.

Perhaps the most compelling argument is the impact that third-party maintenance can have on the bottom line. Data from Aberdeen's 2011 ERP survey which finished collecting data in April 2012 shows that third-party maintenance is on average less expensive than maintenance provided by the ERP vendor itself (Table 1). For example, in organizations between \$100 and \$500 million in annual revenue, the average yearly cost of maintenance is 15.7% of the software license for third-party maintenance, compared to 18% for vendor-managed support. The difference in potential savings could be almost \$25,000 per year for those organizations. This is only the average cost across all organizations. Respondents in this sample are using an assortment of ERP solutions from a variety of vendors. They are also using a collection of third-party maintenance providers.

Aberdeen Methodology

The Aberdeen maturity class is comprised of three groups of survey respondents. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories. All respondents within this group are currently using ERP:

- ✓ **Best-in-Class:** Top 20% of respondents based on performance
- ✓ **Industry Average:** Middle 50% of respondents based on performance
- ✓ **Laggard:** Bottom 30% of respondents based on performance

In this report, Best-in-Class organizations from the [2012 ERP Selection, Implementation, and Training survey](#) achieved an average of:

- ✓ 19 months until they reached ROI with ERP vs. 37 months for All Others
- ✓ 16% improvement in profitability over the past two years vs. 5% for All Others

An enterprise that is considering a third-party firm for maintenance for a specific solution must carefully weigh the cost of maintenance from the software vendor against the price offered by the service organization it is considering. For example, there are cases where maintenance costs for specific solutions are significantly higher than the costs listed in Table I, while at the same time third-party maintenance for those same solutions are less expensive than the costs cited here. These figures should be used as a suggestion to thoroughly consider the costs of maintaining a solution and extending its lifecycle. Provided everything else is equal, the average cost difference makes third-party maintenance an attractive option.

Table I: The Cost of Maintenance

| Cost Scenario | Less than \$100 million in annual revenue | \$100 to \$500 million in annual revenue |
|---|---|--|
| Average Software License Cost | \$306,707 | \$1,069,583 |
| Average Yearly Maintenance Fee (Vendor) | 15.6% | 18% |
| Average Yearly Maintenance Cost (Vendor) | \$47,846 | \$192,525 |
| Average Yearly Maintenance Fee (Third-party) | 12.6% | 15.7% |
| Average Yearly Maintenance Cost (Third-party) | \$38,645 | \$167,925 |
| Potential Yearly Savings | \$9,201 | \$24,600 |

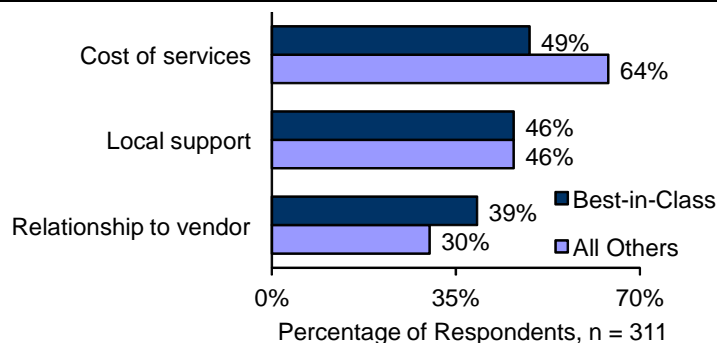
Source: Aberdeen Group, April 2012

What Do We Need?

Trusting an organization other than the software vendor to maintain an ERP solution can be a risky decision. After all, wouldn't the software vendor have the best possible knowledge on how to support that solution? Of course, when the vendor chooses to no longer support a solution, the choice is taken out of the customer's hands.

An organization must carefully weigh all the pros and cons of each third-party firm under consideration. While cost savings provide a compelling reason to switch to third-party maintenance, it should never be the only deciding factor. Indeed, data collected from Aberdeen's [2012 ERP Selection, Implementation, and Training survey](#) as of August 2012 shows that the Best-in-Class are less likely than All Others to choose a third-party maintenance partner based on the cost of services (Figure 4).

Figure 4: ERP Services Selection Criteria



Source: Aberdeen Group, August 2012

There is one major differentiator in selection criteria for services between Best-in-Class organizations and All Others. While these Best-in-Class organizations take less time to receive ROI, they are, in fact, more likely than All Others to focus on their third-party maintenance firm's relation to the software vendor, rather than cost. A third-party provider may or may not have a defined relationship with the software vendor. Still, ERP vendors will not hinder a third-party firm's ability to support their software as the legality of these programs is recognized.

What organizations should be looking for when choosing a third-party maintenance firm is experience with the individual applications being supported. Many third-party firms specialize in maintaining certain software products from specific vendors. Some may also specialize in supporting targeted industries. To help ensure superior service, a company should look for a third-party service provider with experience in projects similar to their own. Organizations should also delve deeply into the third-party firm's business practices. Vetting the vendor's IP (intellectual property) policies is extremely important considering the current litigation in the market around software download and license rights.

Key Takeaways

Third-party ERP maintenance and support provides an alternative for organizations that are unhappy with the support they are receiving from their ERP vendor or on the verge of running an unsupported application. When faced with critical ERP lifecycle decisions, such as whether to upgrade or replace a solution, third-party maintenance may be the answer that best meets the needs of the business. Third-party maintenance may offer services that are no longer provided by the ERP vendor, or provide better customer service and pricing.

This is not a decision that should be taken lightly. Organizations looking into third-party maintenance must weigh all factors, not just price. Can the solution continue to support the business without an upgrade? Can the third-party organization provide service comparable or superior to the ERP vendor? Does the third-party organization have sufficient technical

knowledge of the specific solution? Does the third-party organization protect the company's software use rights, their rights, and the rights of the software vendor? These questions are only the tip of the iceberg when evaluating and comparing third-party maintenance providers.

As our research shows, organizations that secure effective third-party support are able to cut costs and extend the lifecycles of their ERP solutions. And those results go straight to the bottom line.

For more information on this or other research topics, please visit www.aberdeen.com.

To take part in Aberdeen's 2012 ERP research, click [here](#).

| Related Research | |
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