



Precision Solutions Group, Inc.



Continuum of Choice

Keep

Replace

Augment

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Continuum of Choice: Keep, Replace or Augment by Dave Kravitt of Precision Solutions Group, Inc.

Enterprise Software Industry Consolidates

As the enterprise business software industry continues to consolidate, many companies employing these applications are faced with a dilemma – continue to invest in their existing mission critical systems or migrate to newer, “state-of-the-art” systems. All too often their “legacy” applications are working well addressing current business requirements and providing value but have been orphaned by their vendor. The vendor no longer considers them strategic applications, no longer a primary focus of attention, and therefore these applications have uncertain futures. Mergers and acquisitions over the last several years have reduced the field of more than 250 MRP/ERP application development companies to fewer than 100 today and perhaps less than a handful of major players. The result is that a few companies own many ERP applications and a tremendous number of these products fall within this definition of legacy or orphaned applications.

What is the vendor supposed to do?

Many software applications have endured multiple acquisitions and are now owned by companies with competing products, sometimes many competing products! All of them vie for the same marketing dollars, the same research and development dollars, the same support dollars ... all of the same limited resources. It is neither realistic nor prudent for the software companies to fund all of them. They practically decide which are strategic parts of their business plans and deserving of the company resources. The criteria will vary from company to company and is often which application has the largest user base and hence the largest maintenance revenue

stream and profitability. Niche applications with smaller user bases frequently suffer. Three options are available to the vendor for these orphaned applications – merge or migrate, stabilize or put out to pasture, or drop product support. The vendor wants to maximize profitability on all products which usually means minimizing support costs by minimizing the number of products supported while maximizing the support revenue stream.

In order to minimize the number of applications a vendor must support, they may elect to merge the acquired application into one of their existing applications. If the acquired functionally is similar to an existing application, the vendor may build migration tools to move users to their existing application. Either through merging or migration the vendor cajoles legacy customers to move to the strategic application as quickly as possible in what some refer to as a “forced march” approach. There may be benefits for the customer as well since the strategic applications will have a more well-defined future and often are surrounded by ancillary products and services adding additional value to the customer’s infrastructure. The vendor minimizes internal support costs of non-strategic applications and eyes additional license revenue from the existing and additional applications.

The vendor may decide to stabilize or “cap” the acquired application providing only basic support and limited enhancements. They may do this for a variety of reasons including outdated or undesirable technical architecture, small client base, limited market potential, or non-strategic market niche. This “cash cow” approach minimizes internal support costs while continuing a stream of support revenue just like putting a highbred out to pasture and collecting stud fees.

Unfortunately, the customer may not be aware of this decision and continues to pay support fees thinking business is as usual. Since there are seldom new releases of consequence when a product is capped, the support fees amount to only an insurance policy. As long as the maintenance revenue stream exceeds the internal support costs, there is no reason for the vendor to take the final step of dropping support for the product.

Dropping support for a product is the last choice for a vendor since it deprives them of support revenue. It is usually only chosen for one of two reasons: the internal support costs exceed the maintenance revenue stream or, more often, the technical underpinnings of the product, hardware or operating system or programming language are themselves no longer supported. Few applications face this demise as it does not cost much to provide minimal support while still collecting support fees. Unless the customer can locate a 3rd party support organization, the customer is left with little choice but to replace the retired application in the long run.

What is a customer supposed to do?

How should the customer react when their mission critical enterprise business solution has been acquired? It is essential to determine how the application fits into the vendor's product mix and whether it has been designated a strategic portfolio component. Recognize that vendors may *keep their cards close to the vest* especially for applications that they are being capped. The vendor's objective is to minimize customers jumping ship and maximize the maintenance revenue stream. Customers may need to look for clues such as changes in support and development staffing, the robustness of new releases, and the willingness or lack thereof for the company to talk about future product plans. A non-strategic product will face a reduction in staffing and budget and releases will be geared to fix bugs rather than provide new content.

This is just one of the many parameters of a complex decision to determine how your enterprise systems fit your long term IT strategy. Bottomline, a company should replace the software only if there is a real financial justification for doing so or the perceived risk in not doing so exceeds acceptable boundaries. In most situations the financial justification is uncertain and the risk assessment either immeasurable or just an opinion. One model used for this analysis is depicted as a continuum of choices from **keep** to **replace** to **augment**.



Applications strategic to both the vendor and customer earn the **keep** designation. The vendor is investing in the product so the customer is safe investing as well. The vendor ensures applications in this category keep pace with changing industry business requirements with new functional releases. Finally, the vendor will paint a well-defined future for the



application providing a sense of security to those customers whose businesses depend on it.

The **replace** designation applies to software applications with a limited future due to a lack of support of the architecture or the inability to continue to adequately address a company's changing business requirements. Customers whose applications fall in this category should plan on replacing their enterprise systems regardless of the financial justification as the risk outweighs the benefits.

PSGi **Red - Replace**

- Hardware / OS no longer supported
- Software is unstable
- Software does not meet core business requirements intended for
- Cannot be modified to meet needs (no source code or no limited skills available)
- Cannot be integrated to other solutions
- Qualified resources are unavailable

Extending the value of your PRISM enterprise system
Source: Olin Thompson

Numerous applications do not fall neatly into the **keep** or **replace** categories and instead are designated **augment**. These systems are "working" for the customers and providing substantial value. They are not strategic to the vendor who has probably decided to migrate, merge or cap the application. While the vendor may prefer the customer to move to their strategic applications, the legacy application has none of the red flags of

PSGi **Yellow - Augment**

- Working today, meeting business requirements and delivering significant value
- No "red flags"
- Ability to modify and enhance the solution
- Can be integrated with other solutions
- Expert resources are available to help

Extending the value of your PRISM enterprise system
Source: Olin Thompson

the **replace** category and remains of strategic value to the customer and users.

These **augment** applications employ technologies that enable enhancements and extensions. Functional requirements may also be addressed by an "ecosystem" of third party providers such as WAM Systems best-of-breed Picaso™ advanced supply chain planning and visibility solutions. Expert resources are available to provide required or desired support and services but they may not always be vendor employees. Expert resources are frequently available from third party support and services organizations. These "outsource" organizations today make up a multi-billion dollar industry and play a respected and highly sought after role in the IT community.

When employing applications in the **augment** category, customers must weigh the value the legacy application provides and the total cost of ownership (TCO) against the value and TCO of a new application. Legacy applications require continuing investment to address ever-changing business requirements with enhancements and/or integrating best of breed applications. New enterprise business systems require a tremendous amount of resources, financial and personnel, for implementation and migration from the legacy applications. Frequently overlooked migration costs include data migration to the new applications data model, application customization to support existing business processes, and business disruptions which inevitably occur with new implementations. It is frequently difficult to objectively determine the value a new application may provide an organization. While there may be many subjective reasons to migrate to newer applications, many companies performing the cost-benefit analysis simply cannot justify the migration since the end result at best would only be equivalent functionality and not the major improvement necessary to justify the expense. Some companies recognize that their legacy applications

could be dramatically improved for a fraction of the cost of replacement. They use this occasion to ensure their legacy applications are enhanced to address current and anticipated business requirements.

On a periodic basis and whenever mission critical applications change ownership, one should perform the “Keep, Replace, Augment” evaluation. As additional industry consolidations occur and enterprise business software vendors continue to evaluate their portfolios, customers must ensure they understand the implications to their long term IT strategies. New and merged or migrated enterprise business applications may provide additional functionality tipping the scales toward migrating from the legacy application. Other applications will lose support and possibly move into the **replace** category. Some enhanced legacy applications along with best-of-breed components will continue to deliver substantial value with low total cost of ownership providing the customer a clearly competitive edge in a competitive world.