Gartner

Research

Publication Date: 18 December 2008 ID Number: G00163030

Q&A: How Can ERP Recurring Costs Be Contained?

Peter Wesche

Driven by increased pressure for cost containment, attendees at the 2008 Financial and IT Asset Management Conference showed increasing concerns about the major vendor lock-in for ERP and business backbone.

ANALYSIS

Current economic pressures were reflected in a number of questions raised during the October 2008 Gartner Financial and IT Asset Management Conference in San Diego. The conference focused on the dependence on large vendors and how to achieve savings despite of the lock-in caused by high switching costs. The following research provides answers to the most frequently asked questions.

How can I reduce my spending with a strategic vendor?

One of the first issues is the degree of use and distribution of licenses. With strong asset management in place, you should identify areas of low or no use, and recover such licenses for reuse, or if possible, trade them in during your next vendor negotiation. Compare your contractual rights with actual use and establish real needs including short-term changes. For example, some organizations have purchased too many power user licenses, but need more licenses for occasional users. Review the contract, and if you have an opportunity to change the user type to a lower level of use at a lower cost, then set up a new user mix. If your contracts do not contain change clauses, explore the options to relicense and compare the cost, including maintenance for the next three to five years. Also adjust the user counts to get rid of your shelfware.

In some cases, if you cannot swap the users, cancellation and relicensing might provide lower recurring cost and greater advantages for discounts during a slowdown in software sales. Before doing so, factor in all expenses and consider the cash effect to avoid unpleasant surprises.

How can I get better value from my maintenance contracts?

When negotiated with foresight, the maintenance and support contract should provide the user organization with options to reduce the cost of application support by focusing on enterprise-specific topics such as configuration, user profiling and distribution. Beware that many of the contracts are only policies because they contain a change clause that enables the vendor to change technical support policies with a 30- to 90-day notice. After the implementation phase that kicks off the live systems, the service-level agreements (SLAs) contained in the maintenance contract should reflect the required service for bug fixes, configuration adjustments and more. If you can choose among different SLA levels, such as in a renewal situation, then choose the lowest required for managing your risk. Ensure that upon implementation of any new version or expansion of scope, external project efforts, such as third-party efficiency monitoring or other post-go-live checks, will be cut off and addressed within the standard maintenance entitlements.

How can I respond to the rebundling of software?

To protect the business value of your existing perpetual software licenses, establish a repository of functional license entitlements as part of the contractual documents. When doing so, do not use the product names, but instead use the functional descriptions in your own terminology (see "Protect Yourself From Areas of Risk During an SAP Software License Negotiation"). This protects you against rebundling and ensures business continuity after every upgrade. Negotiate a clause that enables you to upgrade net-to-net, meaning that you can continue to use the software with the same functionality at no additional cost, even if the functional scope was expanded. Contract standard terms rarely address the scope of upgrade rights, when compared with customer expectations.

How can I avoid increases in the cost of maintenance?

When renewing the maintenance contract, beware of the recurring cost during the software life cycle. Look at the history of maintenance rates and extrapolate future changes. That will enable you to determine the caps required to contain cost over a longer period of time. Create leverage for negotiating such caps with the next license deal. Many contracts allow for changes to the SLAs, duties and responsibilities. Protect your interests by ensuring essential changes can only be made with your consent. When maintenance fees are increased, then appropriate termination clauses must be in place to use alternative service providers, including access rights to essential support information for such third parties in compliance with free market rules.

To make vendor evaluation easier and to improve the management of your ongoing vendor relationship, create one point of contact for the communication of incidents; some vendors are explicitly asking for this. When certification of your application support is required, then ensure that you can comply without additional investments. When specific tools for incident management are mandated by the vendor, then ensure that associated costs are granted by the service provider.

When licensing new components, evaluate the source of support required for such additional components. Whenever possible, choose components that do not need ongoing support or that can be taken off support and maintenance at any time.

Can I still create credible competition in a lock-in situation?

Although difficult to imagine in a tight lock-in, all future investments should consider alternative acquisition methods to your strategic vendor. Such alternatives include:

- Service-oriented architecture integration of other Web services
- Software as a service options
- Business process outsourcing options
- OpenSource options
- Expanding your legacy applications
- Integrating with an alternative vendor's products
- Eliminating former strategic products from your software landscape
- Standardizing a part of your software to outsource it to an infrastructure utility provider

Particularly for innovations, excluding your unsatisfactory incumbent vendor from the shortlist puts enormous pressure on its sales and may eventually provide you with the leverage you need.

Also, establishing a strategic vendor program, including a controlled communication with your vendor that avoids the bypassing of the procurement, will help provide you with more market intelligence and sourcing options that reduce the assumed influence of a true lock-in.

Finally, use the timing of your transaction as leverage, because your strategic vendor will plan your investments for specific target quarters. If you are in a position to delay the investment without obvious reasons, then this will help you leverage your vendor.

What can I do if I do not intend to purchase additional licenses?

This is a situation where leverage appears to be at its lowest, comparable to the decision to not purchase in a particular quarter. The disappointment on the vendor side can be managed to your advantage if, in the midterm, you have a real demand. And in a climate of recession, the smallest opportunities grow big when they appear credible. Build a worst-case and best-case scenario and share with the vendor whichever you feel is more appropriate.

If you know that your current negotiation is your only chance for a new deal in the near future, then carefully put together all issues you want to address within this deal. All known noncompliance, shelfware and necessary adjustments of terms and conditions will have to be addressed with this one deal! You may want to time the deal for an earlier quarter than required, in case you feel an exceptional opportunity to converge all your requirements for terms and conditions and discounts, but be sure not to use the budget before it's due or pay ahead for maintenance. This may be arranged if a financial services provider can offer lending or a finance package that would suit both parties, for revenue recognition and for your budget. With good vendor management in place, such opportunities may be leveraged as a general strategic midterm practice to relieve the cash flow.

RECOMMENDED READING

"Guidelines for Responding to SAP's Increased Maintenance Fees"

"How to Get a Great Deal on Your Business Application Software Licenses"

"Toolkit Presentation: Managing Your Strategic Vendors"

"Avoiding the Most Common Pitfalls in Strategic Vendor Management"

"Reduce Your Software Total Cost of Ownership by Including These Missing Terms and Conditions"

"IT Spending on Software Maintenance Is Expensive So Improve the Value Being Received"

"Protect Yourself From Areas of Risk During an SAP Software License Negotiation"

This research is part of a set of related research pieces. See "Spotlight: Highlights of the IT Financial Procurement and Asset Management Summit" for an overview.

REGIONAL HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters
Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters
Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters
Gartner do Brazil
Av. das Nações Unidas, 12551
9° andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509