

ERP (Oracle)

3rd Party Support: Beyond Face Value

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Desperate to satisfy the executive order to reduce operating expenses by “n%”, supporting your Oracle (ERP) applications comes into the spotlight

- What goes through your mind?
- Do you think you are getting enough value for the large sum of money you pay?
- Are you ready to disengage from Oracle and sign up with a 3rd party support provider?
- Are you already a customer of a 3rd party support provider wondering if you really did get the “deal of the century”?
- Are you a TomorrowNow customer racing against the clock to find your next support solution?

Read on to learn more about what you can do in these situations



Oracle (ERP) Support: Incented To Find A Replacement

Are you one of the many companies growing more frustrated with costs associated with supporting your Oracle ERP applications? A common theme with NET(net) clients is the belief that the value received does not align to the money being spent on support services (maintenance). This is a challenging predicament when you then consider the heightened scrutiny in many organizations on operating expenses and cash positions. As a result, the inclination is to reach back out to the supplier and suggest they need to be a better partner, especially during challenging economic times, and reduce support renewal fees. It is advised to set your expectations low regarding the response for a request to lower support fees. You will be hard pressed to find anyone that initially will arbitrarily offer a fee reduction without material changes to the support services. In fact, in defense of all ERP suppliers, like Oracle, they receive countless requests per day, per month, per year, from customers to reduce annual maintenance fees and/or offer improved or special terms with cost advantages or additional value-added services. It is not realistic to expect that they can favorably accommodate every request, and as such, they strive to be consistent across the customer base in not making it a rule to offer concessions for maintenance.

As the incumbent, bound by its own rules and regulations, Oracle inevitably and indirectly invites consumers to consider alternative solutions. Thus, one of the more common tactics often employed in trying to prompt action is considering the discontinuation of support. In other words, Oracle, "Wouldn't you rather have some money than no money?" Admittedly, the likes of Oracle are not overly concerned with the relatively low number of customers who ultimately drop support with Oracle in lieu of self-maintaining their applications. However, with the advent of third party support providers for certain solutions – specifically PeopleSoft, JD Edwards and Siebel offerings – the consideration of discontinuing support on face value, carries some added credibility. While arguably, this approach may seem to be an easy answer, or easy exit strategy, freeing up cash for the organization, not everything is always as it initially appears, and great care should be taken in reviewing the alternatives associated with discontinuing support.

3rd Party Support: An Evolving Market

One might reason that the notion of 3rd party ERP support has existed for decades relative to having resources outside of the traditional supplier of the applications having capabilities to address and resolve issues with those applications. To some extent, there is truth in this reasoning as various consulting resources over time (larger companies to independent contractors) have been able to provide assistance to companies in need. Often, however, these services are provided in reaction to a particular, point-in-time issue that arises and are billed on a time and material (as needed) basis. Also, in many instances, consulting resources will even expect that the company still has mainstream support with the ERP supplier to leverage. On balance, these consulting resources do not view themselves as a long-term, permanent replacement for ERP support.



It wasn't until TomorrowNow came into existence that the notion of a formal alternative offering to provide long-term ERP support garnered larger market acceptance. Even TomorrowNow, founded in 1998, began with a more consultative focus - assisting customers through complex upgrades. It wasn't until 2002 that they introduced a formal competitive support offering. Initially focused on just PeopleSoft support, TomorrowNow expanded its focus to include JD Edwards, and then Siebel applications (ultimately all now part of Oracle's family of products). In 2005, TomorrowNow was acquired by SAP, which offered at the time, stronger financial backing to a company already growing and another competitive edge for SAP. The early success of TomorrowNow paved the way for others to enter this evolving market to provide 3rd party support. The focus of this growing market remained the Oracle product families of PeopleSoft, JD Edwards, and Siebel, albeit not every newcomer to the market covered all three. The likes of Rimini Street and netCustomer today boast the ability to provide support across these product families, while others such as Versytek remain specialized in their acute knowledge of the JD Edwards products. Other niche companies have come and gone in this space as well, with different areas of specialty, but to date, the market in general has still targeted these Oracle products.

In the future, other companies may emerge to provide competitive alternatives to other ERP venues. If demand continues to increase exponentially for these competitive Oracle solutions, it would be hard to ignore the opportunity for market expansion. In fact, Rimini Street is the first to embark on such expansion, recently announcing plans to offer 3rd party support for SAP applications. They will begin with a charter program in 2008, piloting the offering, with plans for a more comprehensive roll out in 2009. Whether others join in their ability to expand their existing portfolio of services, or new companies emerge to offer services, eyes of consumers and analysts, and of course suppliers, will be looking out for more options. For now, this white paper will focus attention on the established market of providers competing with Oracle support, and each other.

Oracle (ERP) Third Party Support: Beyond Face Value

For the most part a simple pricing method is used by 3rd party suppliers, such as Rimini Street, netCustomer, and formerly TomorrowNow. The thought of paying 50% less for support than what you are currently paying Oracle is very alluring and many clients who have transitioned to 3rd party support have accepted these savings on face value and signed up for such services. We believe the best practice is to look beyond face value at the total picture before making a decision to use 3rd party support. While it cannot be disputed that significantly less money is exiting the doors for support, companies should challenge themselves to ensure that what appears attractive on face value is truly the best and most optimal solution available. It is important to keep the following in perspective in evaluating what an investment in 3rd party support means:

- You will no longer have access to future product releases
- You will no longer receive vanilla packaged updates/fixes/bundles
- You will no longer have access to on-line documentation
- Fixes you do receive for your issues from the 3rd party support providers are all "custom" – adding complexity to an upgrade should a decision be made to return to supplier support and advance the incumbent solution
- Tax and Regulatory updates are all "custom"



- Depth and Breadth of the support staffs may not be comparable to Oracle, or may be a differentiator amongst competing 3rd party options
- Financial viability and overall company maturity and experience will not be comparable to Oracle

While you will have an assigned individual from the 3rd party support provider to help ensure your needs are effectively addressed, the initial savings are attributed to receiving or at least having access to less support services. One might even conclude that in total, the complete service offering from a third party support provider is significantly less than half of what is offered by Oracle. This is not to suggest that one should now dismiss the option of going to a 3rd party support provider; however, it does suggest that while the initial savings associated with 3rd party support is an attention grabber, an optimization and negotiation strategy should be leveraged to garner the best possible agreement.

Consider the numbers. While not articulated as a contractual fact, a common market message focuses on how much Oracle (common to other ERP suppliers as well) invests back into R&D – making a better future for existing and prospective customers. It is consistently estimated that approximately 65% of maintenance income is re-invested to R&D, while 35% is allocated towards traditional technical support and other expense items. While even further granularity can be scrutinized, this initial breakdown is a good starting gage of the price tag proposed by any competing 3rd party support provider. Let's explore an example.

Company "A" is scheduled to pay Oracle \$300,000 this year for its annual support.

- 65%, or \$195,000 goes to R&D
- 35%, or \$105,000 goes to Tech support and other expense items

If upgrading is not an option or in the plans for Company "A", and thus 3rd Party support becomes a desirable cost-savings alternative, one could argue that the proposal from the 3rd party should be at least 65% lower than the quote from Oracle for support. After all, the 3rd party support provider does not offer those R&D benefits that Company "A" is electing to forego unless specialized custom development is included in the support agreement.

It is also important to not lose sight of a key reason why you are willing to consider 3rd party support: the value you receive from Oracle support is misaligned to the cost. Since you already feel that your Oracle investment is priced too high, does a simple formula (while offering initial savings) of reducing your fees by "n" percent (50% being common), really reflect an appropriate alignment of value to cost? Let's explore this with Company "A" again.

Company "A" believes the \$300,000 they owe to Oracle for support is nearly double what they really should be paying. While that may be more a matter of perception, bottom line is Company "A" believes they are well overpaying for the value being received. Therefore, if a 3rd party supplier offers Company "A" support for \$150,000, one might argue, that while the amount of savings is attractive, that is what Company "A" thought they should be paying to Oracle for the complete scope of Oracle's service offering. Thus, is the \$150,000 a good price for the more limited scope of support being offered by the 3rd party support provider? Maybe not.

Before committing to the savings that can be achieved by moving to a 3rd party support provider, NET(net) clients seek to understand whether or not it is the right thing to do. While viable 3rd party support options exist, clearly the large majority of companies still prefer to realize their support needs directly with the ERP supplier. That trend, however, may soon begin to change as frustration grows with escalating maintenance costs, and the pace of advancement, especially of back office operational solutions, begins to slow down due to changing



economic priorities. Whereas 3rd party support first took off as an option for companies running on retired, non-supported releases of the software, today, it offers an alternative to other dispositions as well, including the following:

- In production and stable on any release
- No imminent plans to upgrade (at least for 2 or 3 years)
- Infrequent utilization of support services
- Lack of value or success in resolving issues through Oracle support
- Not running applications, such as Payroll or Accounts Payable, that require tax and or other regulatory updates – even so, these are provided by 3rd party support providers
- Highly customized implementation in which Oracle can rarely provide valuable support
- Preparing to transition to a replacement solution from another supplier
- Transitioning to new system as part of integration strategy due to merger/acquisition

Remember, consideration of a 3rd party support alternative was driven in part by the need to reduce operating expenses, and in part because of the perceived misalignment of value to money spent. While arguably, the answer of employing a 3rd party support provider may seem to be an easy answer, freeing up cash for the organization, remember that not everything is always as it initially appears. Do not let the focus on expense reduction preclude the need for value optimization.

Bottom Line:

A 3rd party support option may be appropriate for you, but ensure you understand and accept the value you are going to receive for your investment, and optimize your deal accordingly.

Keep Your Eyes Open: The TomorrowNow Conundrum

If you make a commitment to a 3rd party support provider, sold by the immediate reduction in operating expenses, ensure you have begun to think through what this may lead to in the future. While a 3rd party support provider, such as Rimini Street or netCustomer, may look to up-sell you on a multiple year commitment (as great as 5 or 10 years), and while it is conceivable you may truly leverage 3rd party support for an extended period of time, it is crucial to be prepared for what might happen next. While the viability or tactics of these providers are not being called into question, the recent downfall of TomorrowNow - what was the most prominent of the 3rd party support providers for Oracle solutions - certainly offers reason to pause.

Certainly, TomorrowNow's downfall can be directly linked to the alleged inappropriateness of its actions, and does not at all suggest other 3rd party support providers are engaged in similar activity. It does, however, still suggest that the 3rd party support provider market is young, and maturing, and as it continues to gain success,



ERP suppliers like Oracle (and soon SAP – given the announcements of Rimini Street to charter an SAP support program) will have a careful eye on this growing market. Be sure as you sign a contract with a 3rd party support supplier, consideration is given to the following added contractual protections:

- Indemnification from any future allegations of wrongful conduct towards the 3rd party provider
- Remedy is defined in advance should it occur that the 3rd Party provider, for whatever reasons discontinues its services
- Service Level Agreement is in place to help ensure effective issue resolution and recourses should issues not be resolved in a satisfactory manner
- Pricing reflective of the value received

Another important consideration is the actual Service Delivery model employed. While, again, not suggestive of any wrongdoing of any of the other 3rd party suppliers, the recent amendment filed in July to the Oracle-SAP (TomorrowNow) lawsuit, does scrutinize the service delivery model introduced by Seth Ravin, TomorrowNow's founder. One may take extra caution in ensuring that if turning to another supplier, such as Seth Ravin's current venture Rimini Street, that great consideration must be given to how any provider successfully employs a hosted service delivery model, that the model is executed in a way that does not invite similar allegations. Again, while Seth Ravin, himself, is identified in the lawsuit, it is for his dealings with TomorrowNow, and that does not translate into any motion against his current company Rimini Street.

While lengthy and comprehensive, it may be worthwhile reading the complaint filed by Oracle. While no verdict has been reached, and no final settlement executed, it certainly carried enough weight to see a major ERP supplier in SAP shut the doors of its owned subsidiary TomorrowNow. The read will just further substantiate the need to exercise caution, but should not be taken as a complete dismissal of the 3rd party market.

While the unfolding of TomorrowNow, rightly or wrongly, will force some companies to think twice about transitioning to a 3rd party support provider, it will likely not significantly impede the overall growth of the market. In fact, other prominent providers of 3rd party support, such as Rimini Street and netCustomer, are already beginning to migrate TomorrowNow clients to their own services. Inevitably, while some companies, now skeptical of the 3rd party support concept due to their TomorrowNow September, experience, may return to Oracle as the "safe" option, many clients, and prospective clients that NET(net) has talked to are inclined to continue to reap the economic gains of working with a 3rd party support provider. Many organizations were satisfied with the overall level of service from TomorrowNow and see the unfolding of TomorrowNow as an unfortunate situation. Even if the TomorrowNow conundrum has offered a reason to take a longer pause, existing 3rd party support customers, and Oracle customers considering 3rd party support have not suddenly developed a new found endearment towards Oracle.

As TomorrowNow customers begin to make decisions about their next move, great care should be taken to ensure their vulnerability does not preclude them from benefiting from receiving an optimized deal. With the October 31st deadline looming, the longer a company waits, the more pressure may exist to sign a sub-optimized agreement because of the pure need to ensure there is no interruption in support services.

Whether you desire to employ another 3rd party support provider, or prefer to re-unite with Oracle, the race to ensure PeopleSoft, JD Edwards or Siebel applications remain protected does not need to be marked by added stress. While they know you need them, at least one of them, they still want your business, and it may even help you differentiate the options by ensuring they work out of respect for your business objectives, to earn your business. Therefore, whether on your own, or with external expert assistance, such as the optimization and negotiation services provided by NET(net), you should keep yourself comfortably in the driver's seat as you make your next move.



Bottom Line: Measuring Success

There is no right or wrong answer relative to your preference as to how to best protect your existing ERP applications investment. While the evolving 3rd Party support provider market offers a more formal alternative, companies may still elect to either continue support with Oracle as the “safe” option, or may elect to leverage their own in-house expertise and self-maintain the applications if the perceived risk is low. Success should therefore be measured based on ensuring whatever solution is ultimately chosen most closely aligns with your short and long-term objectives.

If you are going to change venues, and in particular, have another provider become responsible for protecting your ERP investments, be sure to receive the following:

- Transition Assistance as you move from one service to a replacement offering
- Optimal industry pricing as vetted by experts
- Optimal terms and conditions that considers today and tomorrow as vetted by experts
- Optimal service level agreements as vetted by experts

Whether you are an Oracle customer seeking a lower cost option, a TomorrowNow customer looking to find an alternative, or 3rd Party customer interested in re-uniting with Oracle, these same points are relevant in defining the best agreement to put into place. With nothing to lose, and everything to gain, engaging external, expert assistance to help ensure you have the most optimized arrangement in place may pay the best and biggest dividends for the future.

If you are not yet committed to changing venues, and want to better understand the different options available to reducing ERP maintenance costs, it may be worthwhile to also consider how external, expert assistance can help you make the right choice for your future. Such expert analysis will actually be part of an upcoming NET(net) white paper that will explore the various options in dealing in general with escalating maintenance costs with ERP suppliers.