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Tips to Create a Recession-Proof ERP Vendor Strategy

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If your current vendor "strategy" regarding ERP, CRM or BI apps is simply saying "No, not at this time," or "Please stop calling me," then you might want to read Forrester Research's new report, "Five Steps To Building A Recession-Proof Packaged Applications Strategy."

How best to manage your vendors in this difficult economic environment? It's a critical question, and one that Forrester VP and principal analyst Ray Wang has been tackling on a large scale for some time. (Wang's most recent report offers a comprehensive overview of a recessionary packaged-applications strategy, and vendor management is just one piece of his sage advice.)

Your near-term goal for a down economy strategy is clear, Wang writes: "Find ways to optimize existing investments in packaged apps in order to free up money to fund not only budget cuts but also potential revenue sources for innovation."

With that in mind, CIOs and IT decision-makers need to reexamine their vendor relationships and make enterprise applications decisions "based on business needs rather than bias toward a particular vendor or technical solution," Wang writes. "This approach will favor vendors that deliver choice, value, and predictability in the overall relationship as well as provide greater alignment between apps strategy and business drivers."

Here's what Wang advises when looking at vendor relationships:

1. A required for the future. "Consolidate and/or optimize current application installations, especially ERP, to invest in more high-value specialized applications," Wang writes. "By reducing the cost of the core, you will free up the budget for innovation and new projects."

2. Be Open to Best-of-Breed Applications Outside the Core. When companies are considering front-office and vertical applications from Oracle and SAP, IT and senior managers must subject the leading vendors' offerings to the same harsh scrutiny that they would apply to any vendor.

"For front-office and vertical applications, you have many best-of-breed choices from both software vendors and systems integrators–and these options will often be better than the products that Oracle and SAP offer," Wang writes. "Maintaining a mix of application suppliers will also help preserve your freedom of choice as you evolve your applications portfolio."

3. Prepare for Software Contract Renegotiations. Reductions in workforce, a drop in output production, and new business models will require a review of existing contracts, Wang points out.

"Remove and renegotiate contracts that include cost-prohibitive restraints on moving data centers to other countries and on outside contractors using the system as well as contracts that lack provisions to remove unused licenses, to renegotiate contracts during M&A, and to renegotiate maintenance clauses that do not account for deflation," he advises. "In addition, prepare for the next round of growth with price protection of additional licenses and options for enterprise license agreements."

4. Contain Escalating Maintenance Costs. Maintenance costs for enterprise applications range from 16 percent to 25 percent of net license costs. And customers wind up paying the equivalent of two times their original license cost during a typical 10-year ownership life cycle, Wang notes. "For some customers, maintenance remains an expensive insurance policy that includes access to regulatory updates, bug fixes, and other support-related functions."

For instance, Forrester has spoken with more than 400 customers and has found many who spend US$500,000 on maintenance but call support only five times annually, Wang states. "At $100,000 a call, app delivery pros should work with vendor procurement specialists and the office of the CIO to renegotiate maintenance contracts that reflect better usage of the support capabilities."

5. Check Out Third-Party Maintenance. IT and business managers can protect themselves by turning to third-party support, which can help safeguard against lock-in from vendors that actively deny customer choice, Wang notes. Today there are companies offering third-party support for many major vendor offerings–Rimini Street offers third-party JD Edwards, PeopleSoft, and Siebel support and plans to provide SAP third-party support in 2009.

"The market's best hope will lie with the emergence of new offshore third-party maintenance providers in China–a territory not yet beholden to the dominant vendors," Wang writes. "For these providers to break through–much like the business process outsourcing providers in India before them–and answer the growing demand for affordable maintenance, industry trade groups and other professional associations need to encourage them through investments in joint ventures or the development of third-party maintenance consortiums."