

Point of view Application Management Services

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Are you receiving value from your application management vendor?

Over the past 15 – 20 years, most of the “Tier One” South African companies have made significant investments in enterprise resource planning (ERP) systems. Research has shown that the acquisition and implementation of an ERP system represents only 15% of the overall ERP investment, if spread over 10 years. These systems have to be managed and maintained appropriately if you are expecting any return on your investment (ROI). Organisations generally do not manage to reduce the total cost of ownership nor do they achieve the potential ROI.

With most ERP implementations, the focus is usually on the initial capital expenditure, with software vendors and system integrators structuring propositions to look as appealing as possible. The software vendor and system integrators place less emphasis on what it is going to cost for the full lifecycle of one’s ERP investment. It is absolutely vital that this is understood otherwise it is a wasted exercise. No-one would think of buying a Mercedes Benz and then servicing it at home, would they?



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There is no getting around the fact that maintaining one of the mainstream ERP applications is complex and costly. One of the options organisations may choose is to employ all the resources required to manage their ERP application. On the positive side, the organisation will have total control of their resources; however, there are many downsides to this approach. They have to deal with many issues such as staff hiring and retention, knowledge management, service level management, service delivery management, continuous improvement, upgrades, changes requests and mini-projects to name a few. In an ERP environment, companies are generally implementing new functionality and making changes and enhancements.

The result of this is that there are peaks and troughs in capacity where at one point organisations might be understaffed, and at other times they require additional resources. In addition to this, the support organisation requires solid service management processes, methodologies, technology and tools, and service level agreements with the business in order to function properly. This all has a cost associated with it.

In order to gain more efficiency and to reduce cost, organisations turn to external providers for application management services. It is assumed at this point that the vendor will add value because they will be able to deal with all the people related issues, they have already invested in all the service management components such as methodologies, technology and tools and have developed the appropriate service management processes and can provide the appropriate resources and scalable capacity. What many organisations do not know is that many application management vendors have not got it right and the customer will bear the brunt of this at some point.



Here is some advice when considering an external service provider.:

- Do not worry about where the skills you require are located. We live in a 'virtual' world and people have to get accustomed to not having to touch and feel resources that are providing a service. Whether they are sitting in the office next door or in a beach hut in the Maldives, it does not matter. The important thing is the quality of the work that is being provided.
- Beware of extended contracts unless they feature an escape clause and agreed service levels. Specify that you are entitled to annually benchmark against other service providers and if the existing provider cannot match these, you are entitled to terminate the agreement. You must also be able to terminate the agreement for cause if the provider does not meet pre-agreed service levels for a defined period. The notice period should typically not exceed three months. Also ensure that you are able to terminate for convenience with an appropriate notice period without incurring penalties.
- Marketing hype can be deceptive. Large global organisations may be stretched too thin to deliver the appropriate level of service for your business. Make sure that the service provider you choose has a solid track record in supporting similar organisations and can meet both your current and future requirements.
- 'Hourly rates' could be a warning sign. Deals are won and lost over hourly rates but the customer may suffer in the long run. Vendors are quick to produce low, "competitive" rates but many times they use cheap resources, which are generally poorly skilled that cannot fulfil the contractual obligations. The result - problems take longer to be resolved or are not resolved at all. Contract for outputs rather than cheap labour rates.

- Identify the precise nature of the services included in the monthly fee. You may only be paying for "bodies". Consider the impact of value-adds such as processes, methodologies, technology, service and quality management, and performance reporting to name a few.
- Investigate how the service provider measures quality and service. Many vendors pay a lot of lip service to this area. If it cannot be measured properly, it will be difficult to compare against industry standards.
- Ensure sufficient reporting to enable efficient monitoring of the service. This should include trend analysis, root cause analysis and monthly reporting pertaining to hours of support provided to each user per month, number of incidents, issues causing calls to be logged etc. This is crucial to understand what is causing call volumes and complexity so that one can address these in order to reduce support effort and costs.

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The value proposition for outsourcing application management is real but will not automatically be realised if you outsource. Do your homework, seek independent advice and follow the tips mentioned above. Ensure that you have the right people managing the vendor relationship and service delivery management on your side. With market conditions as they are, this is the ideal time to get it right and to prepare for the economic upturn.

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Designed and produced by the Studio at Deloitte, Johannesburg. (9983/les)