

A Rimini Street White Paper

Future-Proofing Your ERP, HCM and CRM Applications with Hybrid Cloud Adoption

Rimini Street[®]



About Rimini Street, Inc.

Rimini Street is the global leader in providing independent enterprise software support services. The company has redefined enterprise support services since 2005 with an innovative, award-winning program that enables Oracle and SAP licensees to save up to 90 percent on total support costs. Clients can remain on their current software release without any required upgrades for at least 15 years. Over 1000 global, Fortune 500, midmarket, and public sector organizations from a broad range of industries have selected Rimini Street as their trusted, independent support provider.

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Contents

Executive Summary.....	3
Introduction	3
The 1990's.....	4
After Y2K.....	4
Hybrid Integration.....	5
The Innovators Dilemma.....	6
Growth of Hybrid IT	8
Hybrid Models.....	9
Hybrid Realization	10
Myths and Pitfalls of Hybrid.....	12
Summary.....	13
Rimini Street is The Hybrid Cloud Innovation Enabler	13

Executive Summary

There are basically two choices for today's enterprise application customers. They can choose to stay on the vendor-defined roadmap and:

- Continue to pay maintenance support, and upgrade every 3–5 years.
- Be asked to purchase these vendor-acquired innovative cloud products in order to get new functionality.
- End up paying twice the maintenance they pay today as the vendors double-dip on traditional on-premise and cloud-based products during the transition.

Or they can build their own hybrid IT roadmap and:

- Be empowered to define their own roadmap and pick the innovations that best suit their business.
- Get off the upgrade treadmill and save up to 90 percent in maintenance costs by avoiding unnecessary upgrades and paying for full priced maintenance.
- Innovate around the edges and build their own hybrid cloud environments.

Introduction

According to Gartner¹ there are changes occurring in the ERP market and vendor landscape that are surprising many CIOs and application leaders because the ERP providers have basically stopped building new features into their applications and instead are buying companies and integrating those products with their suites. After all, ever since the end of the 1990s and the Y2K crisis, the ERP market has been relatively static: the only major changes in the market have been caused by consolidation, as some vendors were acquired (notably PeopleSoft, JD Edwards, Ariba, Taleo and SuccessFactors).

For most organizations over the past two decades, developing an ERP strategy has meant choosing a suitable ERP vendor, then implementing a wide range of modules from that vendor to leverage the integration inherent in the suite. The benefits of an integrated system were often deemed more important than usability and end-user needs, leading to growing dissatisfaction. Today things have changed: even the megavendors themselves are telling their customers that the ERP suite – while stable, mature and secure – cannot do everything, and that a new breed of products should be leveraged going forward and integrated into ERP suites to increase customers' overall return on investment while decreasing their overall total cost of ownership. But before we delve into detail on today's situation, let's do a quick historical review.

¹Gartner, "ERP Strategy Must Address the Challenges of Postmodern ERP," May 29, 2014.

The 1990s: The Origins of the ERP as We Know It

Enterprise Resource Planning (ERP) was about automation and business process transformation. The ERP systems developed beginning in the late 1980s by Baan, JD Edwards, Lawson, PeopleSoft, Oracle, SAP, and other vendors were conceived and designed as nuts-and-bolts transactional systems. The idea was you'd create competitive advantage by automating your core business processes; and attractive GUIs meant everyone in the business could use the system, not just experts.

The technical innovation that made these new business systems possible – client/server architecture – was firmly entrenched by the mid-1990s: rather than mainframes linked to dumb terminals, you had networked PCs on every desktop and a database server on the back end.

Annual support fees used to pay for filling out incomplete product sets. Vendor support programs in the 1990s were designed to ensure that customers would receive timely updates for critical functional gaps in the vendors' still-developing, immature software suites. You paid your annual support fees happily because you badly needed the functionality in the next release.

ERP turned out to be much more expensive than we ever anticipated. The formula we learned to use was: for every dollar of license fees, expect three dollars of implementation costs. But many customers found the true costs went even higher.

After Y2K: Upgrading Under the Vendor Support Model Was Constant and You Never Got Beyond "Phase 1"

Many organizations were in a rush to get off older legacy applications, install Y2K-proof solutions and get them operational by the end of 1999.

The shift from client/server to Internet architecture meant implementing and upgrading all over again. After the frenetic lead-up to Y2K, the early 2000s were a transformative period: we'd already been burned by costs that proved to be more than we'd bargained for, and we found we were doing upgrades and constantly changing technology components that hadn't been on anyone's radar.

The rate of change meant we were never able to implement more than a fraction of the functionality we had licensed. Every project always had a Phase 1, a Phase 2, a Phase 3 ... a Phase X. But what happened is we'd go live in Phase 1 and then never get to Phase 2 and beyond because the constant maintenance and upgrade cycles on Phase 1 would force us to reallocate all the resources we'd planned to dedicate to the later phases back to the basic maintenance cycle.

Disillusionment has occurred as costs began to sink in. This is when CIOs and CFOs began to ask in earnest, "Hey, wait a minute – what am I really getting for the enormous investment I'm making in my ERP system?"

In addition to “What I am I really getting for my expensive vendor maintenance fees?,” CIOs are asking incredulously, “Now that I’m finally stable on your Internet architecture after 10 years of effort and expense, you want me to rip and replace all over again according to your entrenched vendor notion of where ERP is going?”

Hybridization of ERP

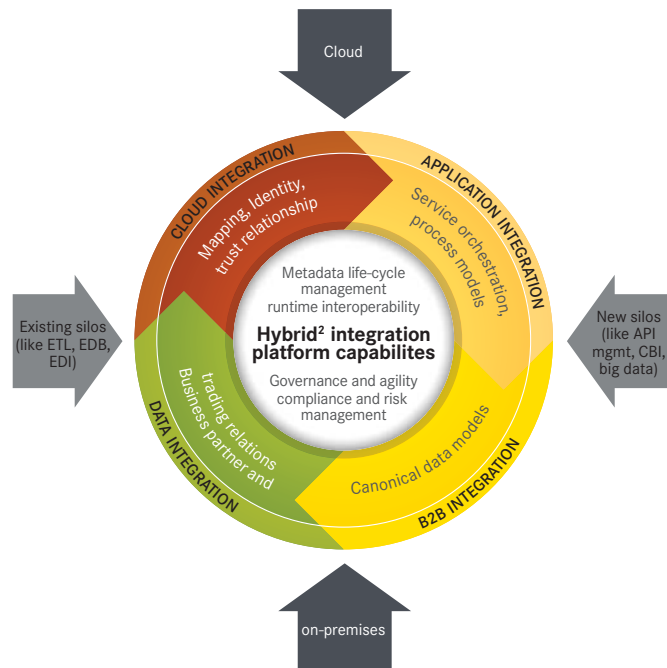
Today many businesses are turning to hybrid ERP solutions to reduce costs and enable more scalable and flexible ERP business processes – instead of relying, like they used to, on upgrades from the vendors for these types of enhancements.

These businesses are implementing hybrid because the world of enterprise software upgrades has changed in the last 10 years and because they understand that today’s ERP upgrade model is obsolete and no longer serves the true needs of ERP customers. After all, ERP is functional, stable, dependable – and perhaps even a little boring. And that’s all right. It does its job processing payrolls, paying vendors, keeping track of inventory, managing customer relationships, and so on.

An increasingly viable and economical solution is to add cloud solutions that leverage the best of your on-premise ERP capabilities, combining them with innovative systems of engagement that enhance your ERP systems of record. These hybrid environments keep your ERP system of record running smoothly doing what it does best while taking advantage of new attractive, flexible, customizable apps for your workforce.



Hybrid² Integration Platforms build on the Interoperability of multiple products or suites.



Source: Forrester, “The Forrester Wave™: Hybrid² Integration, Q1 2014,” February 14, 2014

Many larger enterprises even have a variety of different hybrid integration technologies based on deep integration requirements – or simply because consolidation failed in past. Forrester has recently even coined a new term, Hybrid² Integration. This is occurring as new capabilities improve the interoperability and coexistence of multiple products in merged scenarios.

Forrester states that over the past decade, CIOs focused a lot of their strategic efforts and energy on consolidating their traditional application environments and infrastructure. As a result, many CIOs reduced the number of business application vendors to one major ERP vendor such as Oracle or SAP, or they tried to consolidate all middleware with a single vendor. The problem, according to Forrester, is that these approaches have not delivered the expected benefits.

The Innovator's Dilemma

ERP today needs to transform and add support for mobile, analytics, and social – not just provide process transactions. But the big vendors can't innovate fast enough: they acquire yesterday's innovators while the real innovators have long moved on to new ways of delivering real value.

The bottom line is that your ERP transactional system runs fine, has all the bugs worked out, contains far more functionality than you will ever deploy, and no longer needs upgrading. Many business are in fact satisfied with the current version of their ERP software because it meets their business needs and is highly customized. "It's not broken, so why fix it?"

At the same time, driving innovation is a challenge for the "mega" ERP, HCM and CRM vendors. They fill the innovation gap through acquisitions that they then in turn sell back to their installed base. Essentially, the innovator's dilemma is the trap where companies continue to evolve and innovate based on what they already have in place, rather than embracing truly new, disruptive ideas and technologies.

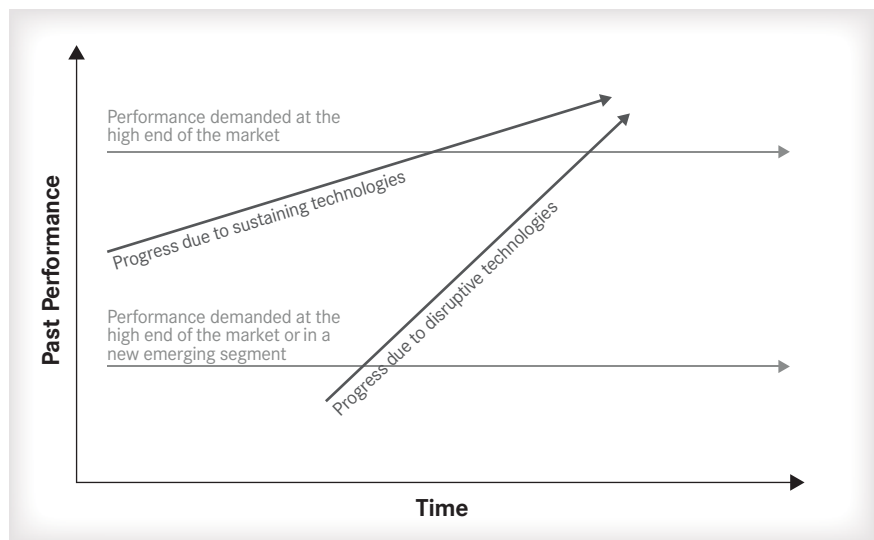
More to the point, megavendors' key revenues and profits rely on customers in their installed base remaining ignorant of other options regarding how they could be spending their budget. To keep their revenue stream flowing, your vendor may cajole you to add on their new almost-ready cloud apps to your existing system – for additional license and maintenance fees for hosting and the promise of more features in some future version. That's called double-dipping and can quickly drain an already stressed IT budget.

In his book *The Innovator's Dilemma*,² Professor Clayton Christensen of Harvard Business School describes a theory about how large, outstanding firms can fail "by doing everything right." The innovator's dilemma, according to Christensen, describes companies whose successes and capabilities can actually become obstacles in the face of changing markets and technologies.

²Clayton M. Christensen, *The Innovator's Dilemma: The Revolutionary Book That Will Change the Way You Do Business*. Harvard Business School Press, 1997.

Christensen describes two types of technologies: sustaining technologies and disruptive technologies. Sustaining technologies are technologies that improve product performance. These are technologies that most large companies are familiar with, technologies that involve improving a product that has an established role in the market. Most large companies are adept at turning sustaining technology challenges into achievements. Christensen observes that large companies have problems dealing with disruptive technologies. Disruptive technologies are “innovations that result in worse product performance, at least in the near term.” They are generally “cheaper, simpler, smaller, and, frequently, more convenient to use.”³ Disruptive technologies occur less frequently, but when they do, they can cause the failure of highly successful companies that are focused only on sustaining technologies.

Disruptive vs. Sustaining Technologies



As the above graph shows, disruptive technologies cause problems because they do not initially satisfy the demands of even the high end of the market. Because of that, large companies choose to overlook disruptive technologies until they become more attractive profit-wise. Disruptive technologies, however, eventually surpass sustaining technologies in satisfying market demand with lower costs. When this happens, large companies that did not invest in the disruptive technology sooner are left behind. This, according to Christensen, is the innovator’s dilemma.

The bottom line is that whether you’re using Oracle or SAP for ERP, HCM and CRM you won’t necessarily achieve business value and peace of mind you need unless you create and implement your own hybrid model. You need to understand that a lot of the best and brightest engineering talent has left the ERP world. During the dot-com boom and after the Y2K, the big software

³ Clayton M. Christensen, *The Innovator’s Dilemma: The Revolutionary Book That Will Change the Way You Do Business*. Harvard Business School Press, 1997.

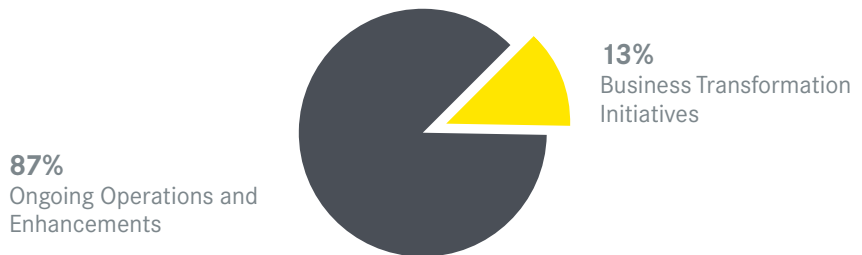
vendors lost thousands of leading developers who had been providing the bulk of the vendors' innovation – they all left the legacy vendors and got new jobs in SaaS and cloud companies.

A decade later, back at the big vendors, it's not about innovation; it's about staying current so you can pay maintenance and get more and more inextricably locked into the vendor's technology stack.

Growth of Hybrid IT

Gartner estimates that in 2014, 87 percent of current IT spend will go towards ongoing operations and enhancements, while only 13 percent will go to new business transformation initiatives. This means that CIO's need to find new ways for paying for business transformation as the money that is available clearly is not enough for most organizations to have a large business impact.

IT Spending Categories



Source: Gartner, "Gartner IT Key Metrics Data, 2014 IT Enterprise Summary Report," January 31, 2014

Classifying IT spending into categories that show impact on business outcomes or success can aid alignment and quantify underinvestment in IT. Gartner uses the following portfolio spending categories and defines them as follows:

- **Run the business.** This is an indicator of how much of the IT resource is consumed and focused on the continuing operation of the business. It includes all nondiscretionary expenses as part of the run-the-business cost.
- **Grow the business.** This is an indicator of how much of the IT resource is consumed and focused on developing and enhancing IT systems in support of business growth (typically organic growth). Discretionary investments are more likely to be included in the grow-the-business or transform-the-business cost.
- **Transform the business.** This is an indicator of how much of the IT resource is consumed and focused on implementing technology

systems that enable the enterprise to enact new business models. This is very much a “venture” category and is represented by activities such as a brick-and-mortar retailer moving to online shopping; a traditional bank offering online banking (or moving into offering insurance services); or a commercial airline offering new freight services.

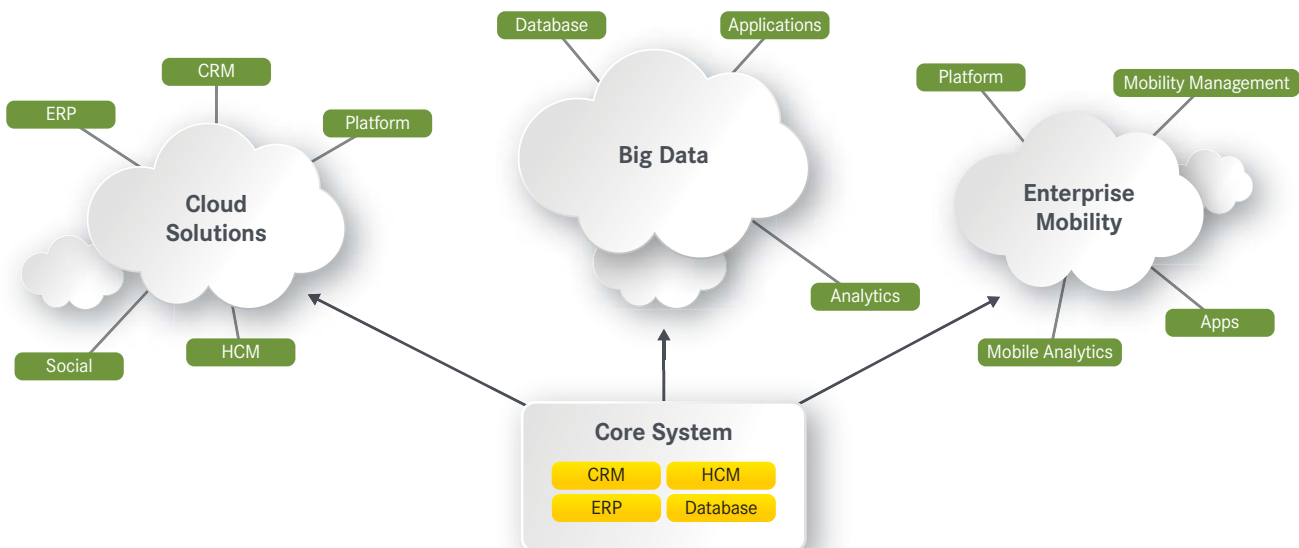
Gaps in business alignment can be found by examining IT spending as it relates to the day-to-day operations of a business (run), the organic growth of the business or productivity improvement (grow) and its support of major business transformation, new products, services or business models (transform).

IT transformation often leads to new business process improvements that enable the business to grow or build new revenue streams; therefore, these costs need to be evaluated and distributed based on IT service and business performance. The run, grow and transform the business framework should always be viewed in business terms with respect to how IT will enable the business to grow or transform revenue, operating income, and/or profit margins.

Hybrid Models

The hybrid model brings new possibilities for innovation but also creates its own set of technical challenges. Even if you buy in to your megavendor’s roadmap, your existing IT team will need to support the integration of new apps with your existing infrastructure. Then you have to figure out: How will your existing technology stack, designed to support your ERP system, interface with the new data coming from the cloud?

By 2018 more than 80% of organizations will be operating a hybrid ERP model



Source: Gartner, “Develop a Strategic Road Map for Postmodern ERP in 2013 and Beyond,” July 31, 2013

The megavendors are not delivering enough value to their customers in exchange for high and rising maintenance costs. Most research and development investment is going into new technologies and solutions such as in-memory databases and mobile computing. But ERP customers won't receive these new products free with their next upgrade; they'll have to purchase them separately. This is just one reason why so many CIOs are hesitating to upgrade their ERP platforms. This new trend of not delivering new functionality as part of maintenance undermines the megavendors' support model and gives a clear indication that the current model is broken!

Upgrading used to make perfect sense when they delivered clear business benefits and ROI. But a recent Oracle Application User Group (OAUG) customer survey demonstrated that 73 percent of customers are upgrading just because support for their current release was ending – not for new features or capabilities.³ And according to a recent study by Panaya (an industry consulting firm that assessed hundreds of real-world SAP systems to find out which functions SAP clients actually activated in Enhancement Packs 1–4), there's a very low adoption rate of the features and functions within SAP Enhancement Packs.⁴ For example, in the two sample functional categories cited in the Panaya report, manufacturing and materials management, the most-utilized manufacturing functionality is deployed in only 8 percent of the customer base, and materials management functionality saw only limited utilization (3–8 percent).

The conclusion is clear: instead of paying vendor maintenance fees for functionality you are not likely to use, you can add real value to your business by using the budget you've been spending on constant ERP software upgrades to do what you've always wanted to do but never had the time or money to do: continue to grow and modify your ERP system to best serve the true business needs of your organization.

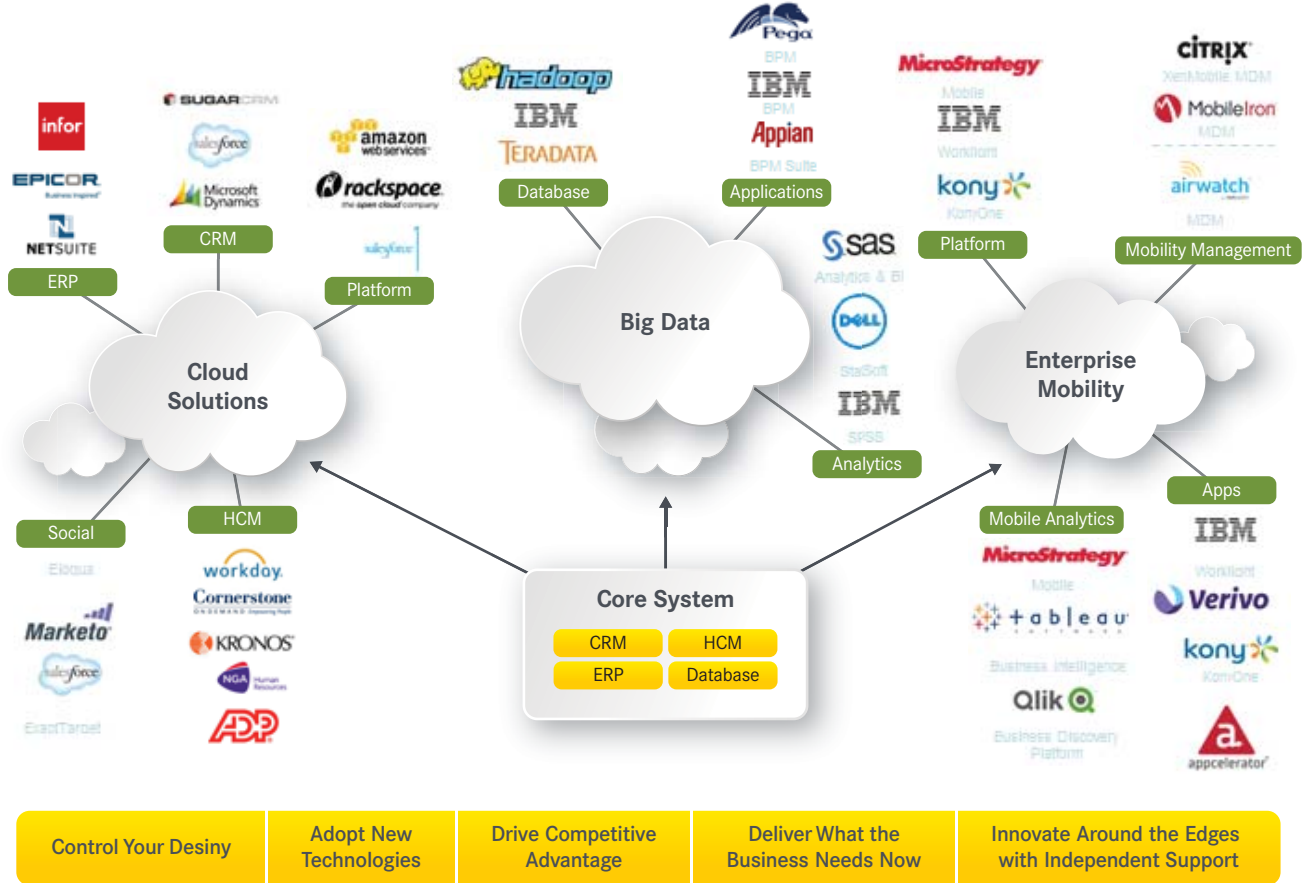
Hybrid Realization

The hybrid approach can be best characterized as the set of people, processes and technology focused on managing the increasing array of mobile devices, wireless networks, and related services to enable broad use of mobile computing in business. This is an increasingly important discipline within the enterprise as more and more workers use smartphones and tablet devices in the workplace. But to be truly useful, these new mobile devices need access to business information in ERP/CRM/HCM systems. It is IT's challenge to build a solid hybrid platform by determining the best enterprise strategy for integrating mobile devices with business processes.

³ Joseph McKendrick, "ERP Upgrades: What's Your Philosophy? 2012 OAUG Survey on Enterprise Application/ERP Suite Upgrade Strategies," OAUG Research Line, 2012. .

⁴ Panaya, "SAP Enhancement Pack 5 Fact Sheet."

The Hybrid ERP Roadmap



Source: Gartner, “Develop a Strategic Road Map for Postmodern ERP in 2013 and Beyond,” July 31, 2013

By using independent support to free up significant operating budget, organizations are using the savings to more quickly add functionality from third-party mobility vendors, while extending the life of their ERP systems for 10–15 years. You no longer need to follow the megavendor’s self-serving, expensive roadmap; the fact is Rimini Street provides its clients with technology roadmaps that help future-proof their stable ERP systems against changes in the technology stack, while adding new technologies to their core business systems as needed.

After all, hybrid applications do not come free from the ERP megavendors. They often require expensive upgrades to the megavendors’ newest technology platforms, as well as constant patching because the vendors deliver functionality a little bit at a time.

The best long-term strategy is to do what the vendors are doing themselves: acquire additional software products and use a hybrid of loosely coupled and on-premises applications to best serve the needs of the workforce. This way the ERP system remains on-premise but becomes augmented by cloud applications from vendors such as Appcelerator, Kony or IBM. Kony, for

example, is well-suited for projects in which large, diverse populations must be supported and development must be outsourced. Kony has a strong integration with both SAP and with Oracle back ends such as JD Edwards, PeopleSoft and Siebel.

Myths and Pitfalls of Hybrid

The biggest myth being propagated today by the megavendors is that of application integration within their own products. The problem is that because the megavendors have acquired so many disparate technologies over the last few years, it is not realistic to think they will work like yesterday's fully integrated ERP modules. Typically every vendor that interfaces to an ERP product has its own proprietary interface; and that is fine, except that they will not intercommunicate with other cloud products. CIOs needing fully integrated functionally are still in many cases better off implementing existing ERP modules than implementing cloud products that are not integrated. Beware of megavendors that offer support bundled with integration. You should also be aware of the megavendors' practice of double-dipping on maintenance, justifying it with the promise of vendor integration. Traditionally integration between products has always been built in-house, and that should not change in the age of hybrid. Don't expect the megavendors to deliver as part of their roadmap exactly what you need to run your business today.

Another pitfall to be avoided is that of being forced to upgrade to get integration. Again, it is much better to self-build exactly the integration you need with cloud applications than it is to let the megavendors dictate when and what will be supported on a specific release. For example, if you run PeopleSoft with Oracle's integration to Taleo in the cloud, you may be forced to upgrade when integration changes are introduced. If you want to truly future-proof your systems, you're better off getting off the vendor's maintenance/upgrade treadmill by choosing the more flexible option of independent support.

Lastly, don't rush everything to the cloud. This is pure marketing by the megavendors that want to sell new licenses. One-to-one functionality equivalence between traditional ERP systems and cloud applications does not exist today; and it may never exist, simply because the very act of moving an application to the cloud dictates that all users will use it the same way: cloud applications are for the most part inherently uncustomizable due to the nature of multi-tenant architecture. Cloud applications may work well for processes like expense reports or recruitment, but will not work for complex business applications that require company-specific customizations to make them usable.

The cloud is not the answer for everything in ERP; cloud-based applications are best used to supplement functionality that does not exist in your ERP system today, and won't exist in the future because the megavendors themselves want to sell licenses for new products to customers. To use Taleo again as an

example, you may own Oracle iRecruitment as part of Oracle E-Business Suite, but Oracle is not going to give you Taleo for free; Oracle will make you buy it. Additionally, Oracle acquired Taleo to fill a niche; Oracle is not going to build Taleo's functionality into the iRecruitment you already own, because Oracle, to increase its license revenue, wants you to buy Taleo.

Summary

- The ERP vendors are acquiring technology and not building it from scratch, which means their enhancements will require expensive and time-consuming upgrades and additional software licenses by their customers.
- You don't need to undergo complex and costly ERP upgrades to add hybrid applications to your technology stack.
- The move to hybrid ERP environments is already the norm – loosely coupled on-premise applications and cloud-based services – have been around since Y2K.
- The best hybrid integrations are the ones not dependent on the megavendors who want to force customers to continue to pay expensive maintenance and undertake migrations to proprietary technologies in order to maintain certification.

Rimini Street is The Hybrid Cloud Innovation Enabler

Rimini Street is agnostic as to the systems you choose to migrate your business processes to. We're not selling products, we're providing services and support to help you get the most out of your investments in IT.

Rimini Street's sole contract price solution – 50 percent of your current vendor maintenance costs – provides technology support for issues that may impact your ERP system, whether it's an issue with your customizations, changes in the technology stack, or integrating cloud services. The funds you save with Rimini Street support can give you the budgetary boost to add innovative cloud apps and services to your organization – the things that will actually help you grow your business and increase operational efficiency. Rimini Street is your innovation enabler, providing better service for your maintenance spend. We have nothing to sell you but your success.

