Optimizing Application Management Services (AMS) to Drive Business Growth

Rimini Street®

Contents

Executive Summary: Price ≠ Value

A dynamic economic environment requires smart spending, flexibility, and fast response times from A dynamic economic environment requires smart spending, flexibility, and fast response times from businesses that want to retain competitive advantage and drive growth. In times of uncertainty, organizational demands on IT escalate, and according to a Pulse survey,[1] IT budgets can become completely frozen or decline, some by more than 10%.

Sometimes there are just too many tradeoffs to make to proceed with big-ticket IT projects in this type of environment.

Price is often a leading consideration in application management services (AMS) provider selection, because generally, the traditional model is effectively commoditized with low-skilled workers. But price shouldn't be the sole criterion. Value creation and factors that improve IT responsiveness should be carefully considered, such as:

- Expertise and root cause issue resolution
- Response time and service level agreements (SLAs)
- Ability to cover talent gaps
- Predictability of costs and maintaining manageable incident levels
- Efficiency and client satisfaction that come without hidden or extra costs

1Pulse Inc., "IT Budget Evolution During the COVID-19 Crisis," May 7-22, 2020.

AMS Provider Landscape

Traditional AMS providers compete on price, but the traditional AMS model is broken. It is a "land and expand" model based on labor hours. Providers usually contract for lower-cost services with a goal to grow revenue through scope creep by adding hours to open tickets or selling new project work.

New business processes and emerging technologies recommended by AMS providers, such as AI and robotic process automation, are important — yet they compete with the need to consolidate resources, vendors, and applications in order to streamline operations and unlock efficiency, all of which are quickly becoming more imperative.

An inherent misalignment between enterprise business goals and AMS provider goals can bring tension: Both aim to minimize costs and maximize revenue, which tends to position the provider's revenue goal in direct conflict with a client's cost minimization goal. The traditional AMS model also comes with an AMS "tax": Organizations can overpay for AMS labor that underdelivers value. That's a bad trade-off.

The AMS Tax: Overpaying for Low Value

If price is the main focus for choosing a traditional AMS provider — and service value is not considered — significant cost overruns can occur. These overruns behave like an unintentional, self-inflicted AMS "tax," where organizations end up overpaying for AMS labor that delivers suboptimal value. This results from engagement in an AMS support model built on metrics such as labor hours, tickets, or support team headcount rather than a value-based metric such as issue resolution.

These lower-cost AMS support models sound cost-effective, but their contractual structures can both enable and incent traditional AMS providers to maximize their own revenue at the expense of their clients by "addressing" issues (sometimes neither quickly nor efficiently), but not necessarily resolving them or their root causes.
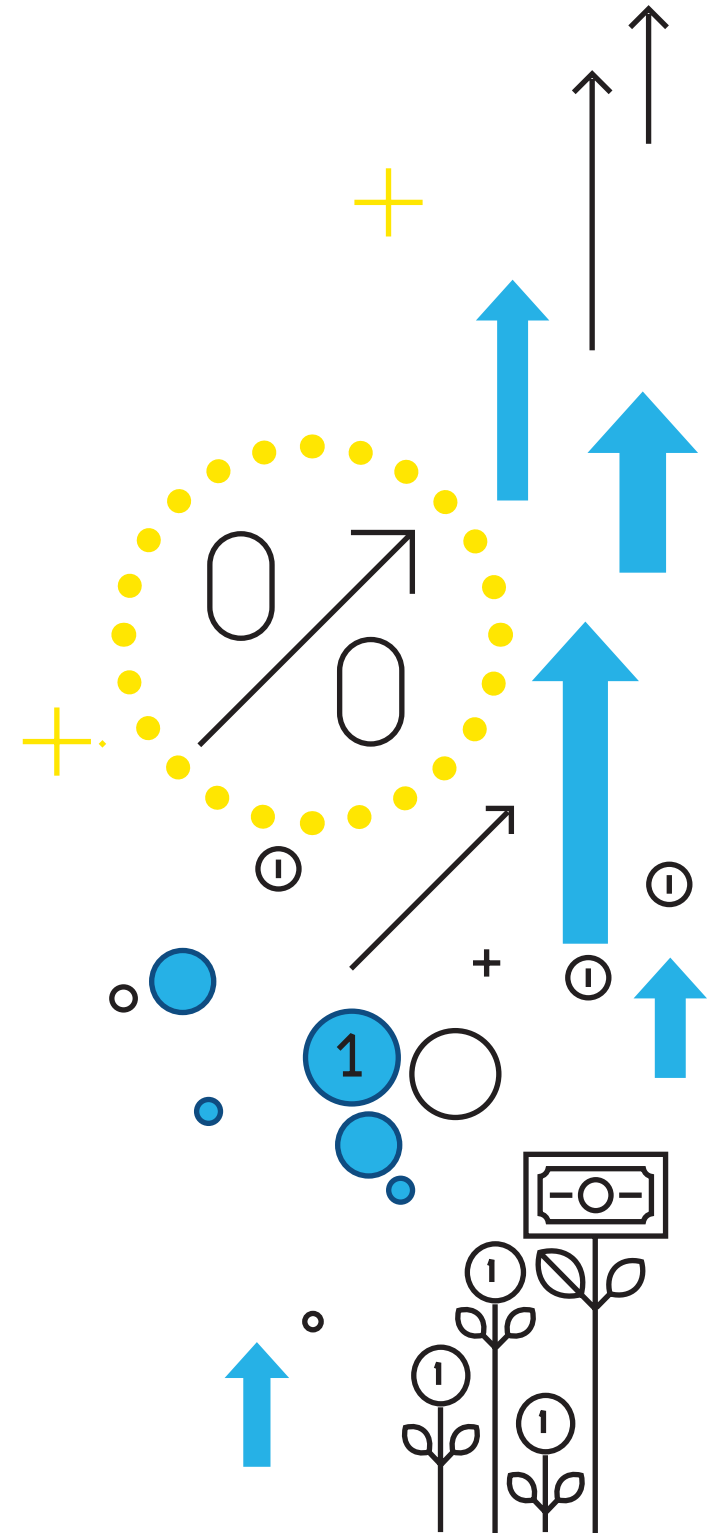
Why Are Traditional AMS Models Still in Business? (No Incentive to Be Better)

Why are traditional, lower-cost AMS support models seemingly designed to be so disadvantageous to clients? And why are clients still contracting for them? The short answer is history, and the answer is also in the name: tradition. Traditional AMS providers have operated the same way for years, with no incentive to change. Deloitte[2] summarizes historical AMS patterns:

- "Labor arbitrage and scale provided some initial cost relief, but resulted in increased pressure on quality, risk, agility, and internal management."

- "Separation between maintenance and continuous value delivery prompted 'over the wall' engineering — favoring specifications over perspective, speed over insight. Attempts to supplement resources with skilled talent led to prohibitively high costs — especially for architects, project managers, and senior business analysts."

- "Cost, capacity, and contract execution against tactical SLAs drove the agenda, not results and value."

- "Deals were structured around business process improvement, but these were rarely achieved. Body count was all that mattered."

Deloitte also hypothesizes why the traditional model has never changed. "When your business depends on throwing an army of cheap talent against every problem, innovations that might shrink the army will be generally unwelcome." In the absence of a better model, AMS clients have historically accepted the available traditional model.

> *Constellation sees a massive customer satisfaction gap in the application management services market. The battle for price over value, process over better outcomes, has led to a broken market."[3]*
>
> *– R "Ray" Wang*
> *CEO*
> *Constellation Research*

[2]Deloitte, "Value-driven AMS. The difference is in the results.," 2010.
[3]ComputerWeekly.com, "Are you Paying Too Much for Application Management Services?," November 8, 2019.

How to Spot a Traditional AMS Model (Warning: AMS Tax Included)

The following three traditional AMS support models usually generate the AMS "tax," inspire bad provider behaviors, and result in overpayment for low service value:

Pay-by-the-Ticket:
A variable-price model with payment for the total number of AMS hours worked annually across all IT tickets being serviced. Compensation is based on labor hours — not on achievement, issue resolution, or service quality. Speed and efficiency are not incentivized. AMS providers can maximize revenue by increasing the number of open tickets and working slowly to increase billable hours per ticket. Situational fixes for recurring issues can be applied again and again to amass more billable hours in the future.

Bank of Hours:
A fixed-price model with payment for a contractual number of labor hours per year, whether those hours are worked or not. Quality, efficiency, and issue resolution do not affect compensation. These AMS providers may lobby to increase the total number of billable hours by employing lower-skilled staff who take more time to complete tasks than highly skilled staff. The need for client oversight adds an ongoing hidden cost of time and labor.

Dedicated Support Team:
A fixed-price full time equivalent (FTE) model with payment of an agreed-upon annual fee for a set number of specific, dedicated team members. If an individual is situationally unavailable or does not have needed expertise, there are usually no additions to the team. A client must work with the available, contracted resources, so backlogs can frequently occur. Precision, issue resolution, and solution permanency are not factored into compensation. AMS providers typically grow revenue by contracting to add more or better-skilled/higher-priced resources to the team.

Enterprises contracting for any of the traditional AMS models above can begin to estimate the size of their AMS "tax" by analyzing the past few years of activity for such annual AMS metrics as:

- Billable hours paid versus estimated/anticipated
- Number of and total additional cost of change orders
- Number of incidents, issues, and tickets that remained unresolved

Excessive Rework and Artifical Backlogs Usually Come Standard

Integrated into the AMS "tax" on traditional AMS models are usually excessive rework and artificial backlogs. Rework occurs because lower-cost staff does not always take the most efficient route in addressing issues and may not even have the skills to support certain IT environments (e.g., one with heavily customized code). So tickets are sometimes addressed more than once.

Contracting for lower-cost staff that can require more hours and more total budget to resolve issues mitigates and sometimes even eliminates any lower-cost benefit when compared to a higher-skilled, higher-cost resource that can complete a task much more quickly. Within this context, it is not realistic — and may not even be possible — for CIOs to detect or track rework and its corresponding price tag.

Artificial backlogs occur, for example, when fixes that should be made permanently to resolve root causes and prevent recurrence are instead made repeatedly to address symptoms. This creates an opportunity cost of other necessary fixes being delayed, while more billable hours and revenue are generated over time. Conversely, unnecessary fixes can also be made, unbeknownst to clients, further growing backlog, project hours, and provider revenue.

Backlogs also occur when lower-cost resources learn on the job rather than being able to immediately apply expertise to open issues. Incidents can pile up, along with the revenue of a provider with a contract for this model.

> "There is a lack of transparency in delivery and committing to a resolution before you know the problem or commercial realities. That's just wrong.
>
> Penalties are increasingly common to ensure AMS providers meet resolution times and targets, because clients don't have faith that AMS providers can deliver."
>
> – Craig Mackereth
> GVP, Global Service Delivery, Support
> Rimini Street
> .

> "Clients are happy when AMS providers win a race in 9.2 seconds, but they don't tell you the length of the run."
>
> – Craig Mackereth
> GVP, Global Service Delivery, Support
> Rimini Street

Reduce Costs, Create Value with a New Model

Clearly, it's time for a new model, one that: serves as a solution to the challenges faced by IT organizations today rather than being part of the problem; helps optimize overall IT service; comes with fewer trade-offs.

This is particularly important as CIOs have a new mandate from their CEOs: Lead innovation and growth, plus create value for the business — and for customers — rather than being a caretaker of IT systems. In a dynamic economic environment, this mandate may coexist with a direct cost challenge to reduce IT expenses.

How can CIOs do it all? And how can they fund it all when traditional AMS support models are essentially cost centers, and expensive ERP vendor support for enterprise software is largely devoid of value?

The solution: adopt an integrated application management services + enterprise software support model from Rimini Street that co-creates value, reduces costs, features ITIL 4 best practices, and frees up valuable client resources for innovation and growth.

This single provider model:

- Is aligned with client goals, minimizing expenses and maximizing IT service value
- Is seamless, removing the challenges and confusion of a multi-vendor model
- Is led by a Primary Support Engineer (PSE) with access to a vast global network of experts available 24x7x365
- Eliminates the need for client SLA oversight
- Compensates teams based on issue resolution and client satisfaction

The Rimini Street Integrated AMS + ERP Support Model

In the Rimini Street model (see Figure 1), PSEs and their teams move fluidly through converging AMS layers and IT Service Management (ITSM) Support Levels 2-4 to resolve incidents with no ERP vendor dependency and no lower-skilled resources involved.

Rather than run up unproductive billable hours, the Rimini Street team reduces incident rates, routine tasks, and backlogs with no learning curves and no rework. Business-critical systems can run longer with better business outcomes and improved total cost of ownership (TCO) for ERP systems and applications.

Rimini Street Application Management Services (AMS) + ERP Software Support Hierarchy (based on ITSM standards)
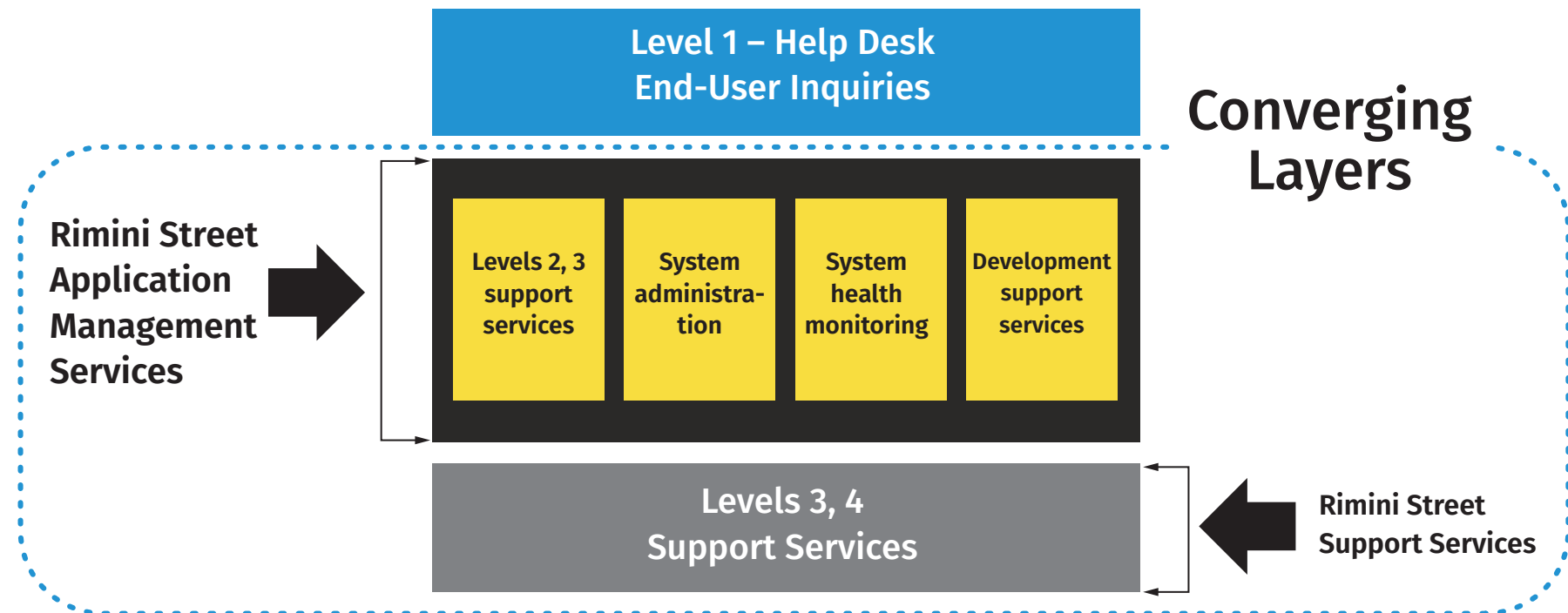

Figure 1

Better Model, Better People, Better Outcomes

Rimini Street AMS experts have witnessed software support horror stories including botched upgrades that run from $10 million to $100 million in write-offs, and deployment of third-party interfaces that cause data problems.

Rimini Street utilizes a better model, better people, and delivers better outcomes (see Table 1). The integrated AMS + ERP support **model** delivers measurable client satisfaction, faster resolution, full transparency, and business continuity with zero interruption during global events. The Rimini Street distributed model means there are no ties to physical locations, which helps attract the highest talent levels.

Our **people** are highly skilled, (the top 5% of the labor pool is targeted for hire), and include the Support Performance Team — an elite, special forces unit focused on achieving the final few percentage points of performance that Rimini Street clients demand. Engineer-led teams fix client issues quickly, **and also fix what other AMS providers may have broken.**

Rimini Street AMS **outcomes** include root cause determination, case resolution, and future prevention, all free from hidden expenses and write-offs.

Rimini Street Model vs. Traditional AMS Models

Key Attribute	Traditional AMS Providers General Approach	Rimini Street Application Management Services (AMS)
Overall Focus	Land and expand, revenue generation	Optimized support – it's all we do
Management Approach	Contract-focused and tactical	Business-driven and strategic
Case Resolution	Multi-vendor and inefficient	Single-vendor and streamlined (L2-4)
Systems Approach	Transform and/or replace	Extend the lifespan
Cost Model	Maximize revenue	Fixed fee and unlimited cases
Engineer Experience	Lower-skilled, more junior team	Higher-skilled, best-of-the-best
Case Management	Case volumes	Root cause and client satisfaction
Advice and Guidance	Often SAP/Oracle agenda and project-focused	Agnostic and client-focused
SLA Management	SLAs can be hidden behind SAP/Oracle support	Transparent, driving issue resolution

Table 1

Use Cases: Integrated AMS + ERP Support

Regardless of where ERP systems and applications live, how mature they are, who wrote the code, or the level of maintenance they require, the Rimini Street integrated AMS + ERP support model provides expert, ultra-responsive support. Rimini Street support functions as an extension of IT teams, with engineers available 24x7x365 around the globe for all AMS and ERP projects, and to fill skill gaps or help with rightsizing enterprise teams.

Rimini Street teams deliver a wide variety of desired outcomes for a broad range of use cases (see Table 2), such as supporting entire ERP systems, reducing costs, clearing backlogs, or facilitating the redeployment of IT teams for more strategic initiatives.

> " *Rimini Street has moved from supporting client ERP systems to running them. Our AMS catalog streamlines IT support and service delivery, and eliminates almost all multi-vendor coordination. This is a huge advantage."*
>
> *– James Duggan*
> *VP, Client Engagement, Global Service Delivery*
> *Rimini Street*

Rimini Street Intgrated AMS + ERP Support Use Cases

Use Case	The Rimini Street Advantage
Resource Gaps	✓ No need to waste time finding and hiring the right talent
Cost Reduction	✓ Offload incident management and daily task
ERP Decommission	✓ If key talent is leaving, experienced Rimini Street engineers can maintain or improve service levels
Clear Case Backlogs	✓ Reduce burden on existing resources, shift capacity to Rimini Street
Fill IT Skills Gaps	✓ Scale your teams with engineering talent that can support critical SAP and Oracle modules and systems
Merger or Acquisition	✓ Rightsize with integrated software maintenance support and managed services that flex with your business

Table 2

The Proof is in the Numbers:
Better Response Time = Better Service

When contracting with an AMS provider, it's important to choose wisely. Some AMS providers contract for resolution-based SLAs, but their "resolutions" can be passing tickets on to software vendors to solve. This makes their SLAs look good, and fast, with no transparency as to if or when an issue is resolved — or if future incidents will be prevented. These types of contracts include the AMS "tax."

Rimini Street SLAs are based on response time, and help eliminate the AMS "tax." Rimini Street teams resolve issues and address root causes to avoid incident recurrence. They also continuously self-evaluate by gathering client feedback for every incident logged. The proof is in the numbers.

Recent Rimini Street metrics include:

- **2.39-minute average response time** for P1 and P2 cases in 2019

- Providing expertise in root-cause on SAP IDoc failures **reduced incident levels by 28% in one quarter** for an SAP client in the United States

- Averaging **2 days in time-to-close for data fixes** for UK-based Oracle EBS construction and civil engineering firm

- Fulfilling **96% security task-close-rate average** over six months for an SAP client in the energy/utilities industry

- Averaging **3 days in time-to-close incidents** for an Oracle E-Business Suite AMS client

- Routinely producing **27 compliance artifacts** per change request for review and approval from a CMMI Level 3 AMS client

2.39
minute
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3days
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incidents

Moving Forward: Reduce Trade-offs, Drive Growth

When choosing an AMS provider, it is crucial to reduce tradeoffs by having the right model, the right success metrics, the right compensation and incentive structure — *and* aligning AMS provider goals with enterprise business goals.

Free up funds to drive enterprise growth and minimize the AMS "tax" by researching and evaluating options thoroughly before choosing a provider for your mission-critical, high-value applications and systems.

Rimini Street offers:

- Integrated AMS + ERP software support for Oracle
- Integrated AMS + ERP software support for SAP
- AMS software support for Salesforce

Contact Rimini Street to discuss how to optimize your AMS + ERP support. Expert engineers look forward to hearing from you.

Rimini Street

About Rimini Street

Rimini Street, Inc. (Nasdaq: RMNI) is a global provider of enterprise software products and services, the leading third-party support provider for Oracle and SAP software products and a Salesforce® partner. The company offers premium, ultra-responsive and integrated application management and support services that enable enterprise software licensees to save significant costs, free up resources for innovation and achieve better business outcomes. Global Fortune 500, midmarket, public sector and other organizations from a broad range of industries rely on Rimini Street as their trusted enterprise software products and services provider.

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