



An Unlikely Place to Find Cost Savings

ERP Software Maintenance and Support Annual Fees

By Eva Olsaker

Some finance and IT departments have found long-term savings by using third-party maintenance and support providers for their ERP software.

Government executives are being asked to manage and operate their organizations under severely constrained fiscal conditions, all while improving efficiencies and performance. The average information technology (IT) organization spends 68 percent of its IT budget on maintaining the organization, systems, and equipment, according to a 2009 report.¹ Some of these costs are fixed, which limits flexibility and results in budget cuts elsewhere in the organization. However, some finance and information technology (IT) departments have found long-term savings by using third-party maintenance and support providers for their enterprise resource planning (ERP) software.

Third-party maintenance and support providers offer software maintenance and support for most ERP systems. These firms provide services such as technical telephone support, emergency after-hours support, legal and yearly tax updates, regulatory updates, system configuration, software bug fixes, and software patch updates. These are maintenance services typically provided by the ERP software vendor under the organization's paid maintenance support contract plan. In some cases, the third-party provider may also support existing customizations of the software.

WHO MIGHT BENEFIT

Software maintenance and support

provides owners of software licenses with an upgrade to the next major software release, delivery of minor updates and patches, updates of regulatory information, and toll-free customer support by phone. Generally, annual maintenance and support fees range from 17 percent to 22 percent of ERP license fees, with annual increases — sometimes of 5 percent a year — tied to the inflation rate. Depending on size, budget, and number of users, government organizations often pay hundreds of thousands of dollars per year for enterprise software maintenance and support. If an organization stops paying the annual fee, it receives no software support or access to upgrades, in which case its options are to support the software itself, hire a consultant, or hire a third-party maintenance and support vendor.

A number of organizations are asking themselves if they are getting a good value for their annual support fees. While maintenance and support services and costs may be necessary, some organizations that are looking for areas of cost savings see these fees as excessive, especially if the jurisdiction is having no issues with the current version of its software, doesn't contact customer support for service, doesn't anticipate upgrading to the next major software release, and doesn't see the customer services received as worth the annual expenditure. In addition, some government organizations have found bud-

getting for maintenance and support frustrating. Pittsburgh (Pennsylvania) Public Schools, for example, did not find out its maintenance and support costs until after its budget was requested, and obtaining maintenance and support cost information from the vendor for budgeting purposes proved challenging.

The current economic climate has made these software support payments all the more painful for many governments. In Montgomery County, Maryland, for instance, the chief information officer no longer sees the maintenance fees paid to software vendors as reasonable, and he foresees governments using other products and service providers, and potentially taking risks they'd prefer not to take, as a result.²

Organizations that migrate to third-party maintenance and support providers for their enterprise software tend to have similar characteristics:

- They have no problems with the version of the software they're using
- They don't intend to upgrade their software
- The functions offered by the software meet the needs of the organization
- The organization as a whole does not see future enhancements as being necessary
- The current software is heavily customized
- The organization is not under current maintenance and support
- They are not satisfied with the customer service they receive from their software vendors
- They are often looking for cost containment opportunities because

they cannot afford their current annual support costs.

Jurisdictions that have reached the end of a product's support life and are therefore no longer receiving full support services can also benefit from using third-party providers, since these organizations would have to purchase support to fix applications anyway, and third parties usually charge less than the application vendor.³

LOOKING AT COST

Third-party support providers — which have become increasingly visible in the last six years — claim they can save organizations 50 percent, and more, in some cases, over their current maintenance and support costs, all with improved customer service. According to a report issued in 2009, moving to third-party support for business software applications typically reduces maintenance and support costs by 30 percent to 50 percent.⁴

Cost was the primary reason Pittsburgh Public Schools gave for switching to third-party support — annual costs were high and increasing, and the district didn't have the funding or need for a major upgrade. The district now pays approximately \$80,000 a year, compared with approximately \$300,000 under its previous vendor support agreement. The district reports that it has experienced reliable and cost-effective customer service from the third-party provider.

A medium-sized Midwestern city, which has been using a third-party maintenance and support vendor for a little over a year, moved away from vendor support mainly because of cost. City officials also believed there was minimal risk in switching to a third-par-

ty provider because the city had been using the same version of its finance software for four years and knew the environment was stable. The city has now decided to use third-party support for its human resource software, as well.

MAKING A DECISION

Jurisdictions need to deliberate carefully before moving to third-party maintenance and support for their enterprise software, as well as reviewing the legal terms of their contracts with their software vendors. It is not recommended for organizations until their current software version have been stable for at least one and a half to two years, and some governments recommend three years. Organizations need to take advantage of the native software's maintenance and support to ensure system stability. Before moving to third-party support, carefully assess the stability and functioning of the current application releases and determine an appropriate strategy for future upgrades.

Moving to third-party support does not mean the software cannot be upgraded. New releases will not be available after the jurisdiction moves away from vendor support, but the organization can get any currently available software releases before leaving the original software vendor maintenance agreement and then upgrade to those releases in the future, if they decide to do so. Also, in approximately three years, the savings achieved by using third-party maintenance and support models can cover relicensing or purchasing software.

Finance and IT executives need to work together on third-party support

migration decisions. The decision process should be a joint partnership between the chief information officer (CIO) and chief finance officer (CFO), or high-level executives in those departments. While the CFO usually pushes the process, focusing on cost savings and risks versus rewards, the CIO needs to weigh in on whether this is a sound decision from a technological and maintenance perspective.

CONCLUSIONS

Due to the constraints imposed by the current economic situation, governments everywhere face shrinking budgets. Seeing no immediate signs of significant economic relief, government officials are seeking long-term savings opportunities. Some governments have saved money and gotten increased customer satisfaction from using third-party maintenance and support providers for their ERP software. There are risks to going this route, but an increasing number of governments believe the cost savings outweighs the risks. ■

Notes

1. Heidi Lo and Andrew Bartels, "The State of Enterprise IT Budgets: 2009," August 7, 2009, Forrester Research, Inc.
2. Mary Opsdahl, "Cash-Starved Governments Look to Cut IT Maintenance Fees," May 24, 2010, www.govtech.com/pcio/Cash-Starved-Governments-Look-to-Cut-IT.html.
3. Pat Phelan and Bob Igou, "Q&A on Switching to a Third Party for ERP, SCM and CRM Maintenance and Support Services," March 16, 2009, Gartner, Inc.
4. Gartner.

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