

Living with Legacy ERP: Upgrade or Replace?

Should you upgrade, or should you replace?

Unfortunately, there is no single easy answer to these questions.

Clearly the decision is a complex one, and informed evaluation of the technical and business variables, as well as a detailed consideration of the costs and benefits of the various options, are important initial steps in making an informed decision.

This should be treated as an important project in itself.

Over the years most ERP solutions have punctuated periods of incremental evolution with significant architectural changes or major releases. Some vendors delivered major new releases every two years or so. Others, with more functionally mature offerings, tended to limit these big jumps to every five to ten years. These major releases might involve integrating functionality or modules from new acquisitions or fundamental changes to architecture or user interface. Architectural changes were often about re-platforming or migrating existing functional capabilities to keep up with modern technology trends.

In recent years, this trend has been quite visible with the various solutions that pre-existed cloud computing migrating to cloud-enabled or “cloud-native” platforms. We saw it with Oracle over the past decade as they moved functionality from eBusiness Suite and other applications to their (Fusion) Cloud. The same with SAP’s S/4HANA, Microsoft’s Dynamics 365 and Infor’s various CloudSuites, to name just a few of the most high-profile examples. More recently IFS and Unit4 have also had major ‘rearchitected for the cloud’ product releases.

In theory, major upgrades should be a thing of the past as many of these new cloud versions run on an “evergreen” model, with frequent release cycles and all users upgrading together or within a defined and limited period. It will take a few years to see if the industry lives up to this promise in practice. That promise is well and good if you have implemented one of these newer cloud versions, but what if you are running Microsoft Dynamics AX 2012, SAP ECC6, Oracle eBusiness Suite or a range of other previous generation versions of market-leading ERP solutions? ***Should you upgrade, or should you replace?***

Unfortunately, there is no single easy answer to these questions. Let us consider some reasons why.

Technical Considerations

Upgrade Complexity

Upgrade complexity can vary due to a number of factors which may contribute to making a clean slate looking much more attractive. It is not a quick decision, and warrants rigorous assessment.

Redundant Customisations

You may have customisations that are no longer needed because they have been replaced by new standard functionality sets. These may need to be stripped out of your instance and new versions of the business processes that they support may need to be designed. This can bring some of the change management and training requirements to your upgrade project that you might expect from a new implementation.

Redundant ISV Add-ons

Similarly, you may have Independent Software Vendor (ISV) add-ons that may no longer be needed because they have been replaced by improvements in standard functionality. The impact of this is very similar to the previous point about redundant customisations. This scenario has been particularly prevalent in the Microsoft Dynamics AX ecosystem over the past decade as that solution matured from an acquisition to a core part of the Microsoft business applications portfolio with broad reach and deep functionality. One of the great strengths of the Microsoft ISV network is that functionality gaps or niche requirements have been filled by certified ISV add-on solutions. There are likely to be several ISV solutions available globally for any given set of requirements. As the core solution matured some of these functionality sets were developed by Microsoft, or in some cases they acquired ISV solutions and embedded them into the core product. The evolution of the core ERP product potentially leaves users of ISV solutions with a decision to make when upgrading.

Redeveloping Customisations

Some customisations may need to be retained when upgrading. But they may need significant redevelopment to work with a new version. This is particularly likely where there is a significant jump between versions. Apart from the technical effort, and cost, that this may entail, it is not uncommon for support agreements or even commercial relationships with the original developer of the customisations to have lapsed or even soured. This can bring an added complexity if a new development partner must be found. A new partner may be faced with poorly documented or architected customisations to make sense of.

Multi-step Upgrades

Depending on the number of versions between the existing implementation and the one that is being upgraded to, a multi-step upgrade processes may be required. Vendors typically provide upgrade scripts and documented steps to move from one version to the next. This can be reasonably straightforward technically if there are no customisations to consider. These upgrade scripts and processes rarely exist for upgrades that are separated by interim versions. In such cases it may be necessary to perform separate upgrades to each interim release. This will take more time and effort and may require multiple cycles of regression testing.

Multiple Upgrade Options

A characteristic of the move to cloud-based ERP solutions is that many vendors provide multiple cloud or hosting options and, in some cases, even different versions of the standard software. SAP for example has multiple versions of its S/4HANA solution available to meet the different requirements of its customers. Understanding each offering, its functionality and flexibility as well as the various cloud models will be important to SAP customers considering moving from SAP ECC6. Other vendors, such as Infor, offer similar options for some of their products.

Business Considerations

The previous section looked at some of the technical considerations when evaluating whether an upgrade makes more sense than implementing a new solution for your business. There may well be business drivers that need to be considered too.

Missed Benefits

Taking a fresh look at how your business processes should operate is something that is often done as part of an ERP implementation, but rarely as part of an upgrade. This may mean that opportunities for improvement may be missed, and potential business benefits may go unrealised. Business processes can of course be redesigned as part of an upgrade, but then the project will more closely resemble a reimplementation than a technical upgrade and may cost more. This is not to suggest that a reimplementation or replacement should be considered any time an upgrade is due – but if the current processes and system are not delivering all they can, and especially if an upgrade has not been performed in quite a while, it is worth considering.

Business Changes

Businesses change over time. New acquisition or divestments happen. Processes are outsourced. Support services are centralised. New markets are entered. New channels are launched. Any of the above could mean that a solution that was right for an organisation when it was implemented may no longer be. It may not support new aspects of the business very well or it may contain functionality that is no longer used (but is still being maintained). Upgrading such a solution may mean limping along with new technology and missed opportunities or it could mean carrying excessive running costs. If this is the case, implementing a new solution may well be a better option.

Architecture

The emergence of cloud-based solutions with service-oriented architectures has meant that integrating solutions is now far easier than in the past. This has enabled organisations to adopt what Gartner has termed a “post-modern” ERP architecture. This entails using “best-of-breed” solutions to support different business processes or lines of business and integrating these as needed. A core finance and procurement solution might sit alongside a specialist HCM solution and integrate to multiple order management, service delivery or operations management solutions. Proponents of this approach argue that it enables more agility to react to changing business needs without requiring significant changes to a tightly integrated solution with knock-on effects around the business. If an organisation is considering going down this route, then an impending upgrade may provide the catalyst for a decision that smaller projects to replace parts of a solution with “best-of-breed” solutions is preferable.

Conversely, an organisation may want to move from a situation where they are managing multiple integrations and requiring different skills to manage different systems to a more centralised and standardised architecture. Impending upgrades in some of those “best-of-breed” systems may hasten a decision to standardise.

But ...

All of the above are reasons why deciding to upgrade or replace your ERP is not necessarily an easy decision. However, the potential complexity of the upgrade path does not mean that it is the wrong path. Some reasons why upgrades can be preferable include:

User Transition

An upgrade may be a simpler transition for users. User interfaces may change (hopefully improve) in an upgrade but usually the core concepts and data structures will not fundamentally change. This continuity can be attractive if the objective of the project is not to enable significant business change. Managing change is the most difficult part of most ERP projects. If it can be avoided, then the project should be simpler.

Software Cost Savings

Most likely there will be software cost savings in an upgrade compared to a fully new solution. Even when undergoing a significant transition, such as from AX2012 to D365, or from SAP ECC6 to S/4HANA there are likely to be software licence transition mechanisms from the vendor. There may be some cost – for example in moving from a perpetual to subscription model or if adding new components – but savings should be available in comparison to a brand new solution from a different vendor. Customer retention is very important to software vendors so they will make it as financially attractive as they can.

Implementation Cost Savings

Implementation cost savings are less certain, but they can be available. If there is little business process redesign required, then the early stages of the implementation may focus on technical changes and reimplementing the same business processes in the new solution. This may save time (and consequently cost). How standard the current processes are will have a big bearing on whether this is straightforward or not, as will the number of jumps between the versions being implemented.

Summary

Clearly the decision is a complex one, and may have different outcomes depending on the business environment, the age of the system being upgraded, the level of customisation and the nature of the newer version available. A structured and informed evaluation of the technical and business variables, as well as a detailed consideration of the costs and benefits of the various options, are important initial steps in making an informed decision. This should be treated as an important project in itself.

How Lumenia Can Help

Lumenia are full lifecycle independent ERP consulting specialists. The initial step in many of our client engagements is to develop an ERP and business systems strategy. Some of the questions we need to address are those raised in this paper. We have developed a structured methodology to help carry out this assessment and develop a strategy in an accelerated timeframe with broad organisational engagement.



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