Application Replacement: risk, cost and innovation considerations

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The economic crisis of recent years has forced a rethink of major IT investments. Even with the supposed green shoots of recovery being discussed by our political leaders, it's hard to see how the large capital expenditure projects similar to those of five years ago will be funded today.

So even though the competitive landscape will move on relentlessly, the idea of replacing all your business applications as part of a strategic plan will probably fall on deaf ears. I still remember an ex-manager of mine saying that every time I said "strategic project funding" to him it just meant that it was going to cost the company money.

Executive Challenges

For most companies, their applications and systems do an OK job of running the business. They probably have done so for the past 10 to 15 years as they've been customized to suit your bespoke business processes. The problem today is delivering that next 10 to 15 percent of functionality required to get the business back to being a market leader again. This might then be followed by the more significant effort needed to enable the business to drive forward over the next three to five years.

As your business has changed, new systems have probably been bolted on the application portfolio, creating an evolved architecture. Evolved, or accidental architectures, usually end up constraining their hosts, as the cost of development, maintenance and testing grows ever larger, leading to paralysis in the delivery capability of your team. This application spaghetti is often the main reason IT professionals favour a rip-and-replace strategy.

Risk, Cost and Innovation

However, a rip-and-replace approach is not necessarily the right one. In order to assess the value of making fundamental changes to an application portfolio, one should look at the three core aspects of

- Risk
- Cost
- Innovation

The rip-and-replace approach may deliver lots of innovation, but is it worth the cost and risk? Are there other ways to achieve similar levels of innovation? Maybe you should look at ways to capitalize on (parts of) the existing systems and make them easier to integrate and change, and less expensive to run.

Depending on the profile of your business, you may want to maximise some of these aspects at the expense of others, but this is a business, not a technology decision. Only once the blend of these parameters is agreed, can a technology change program be considered.

Business Focus: Revenue and Profit

When evaluating change, the commercial drivers will either be to increase revenue or reduce costs (notice that I'm staying away from using the word strategy at the moment). If your company is looking for revenue growth in the short term, extending sales reach through new channels to your current market or into new areas may be required. Longer term, increased revenue may require a different product mix. By optimizing the product development life cycle through improved processes and systems, the time-to-cash can be dramatically reduced. Therefore, look for opportunities in your company where technology can help to improve the bottom line.

For example, the Internet can provide a very cost-effective way of reaching into new markets, even more so with the recent popularity of mobile commerce in the consumer market place. But it does require that organizations are able to connect their core back-end systems in real-time to a Web presence or EDI solution.

Look to drive efficiencies through your organization by reviewing working practices, the workflow of your systems and by delivering self-service capabilities, as these activities target the underlying profitability of your business. Each functional area within the business has its part to play.

One sure way to improve the bottom line of the business is to focus on improving customer service while lowering the cost-to-serve. Consider, for example, the cost difference between someone in your accounts receivable department spending 15 minutes on a call with a customer managing an invoice query, and the same customer reviewing their account themselves via a Web portal. Multiply this effort by many thousands of customer queries a year and the efficiencies are obvious.

When considering internal applications, workflow is critical. People often create their own undocumented workarounds to inefficient business systems. These activities can become so entrenched that people stop thinking about improving things. You can probably optimize the processes, although only if the underlying systems are flexible enough to support the change.

Blending Risk, Cost and Innovation

Delivering innovation in core business systems is essential in order to drive growth and profit. Innovation underpins any organizational change program and is required to take advantage of new thinking, new business practices or new technology platforms.

Without innovation your business risks falling behind in the market place as your competitors drive forward. However, in some commodity areas of your application set, delivering innovation is less important than containing costs, so there is always a balance to strike and one size definitely doesn't fit all. With dramatic change there is also increased risk and although some of this can be mitigated, it can't be removed completely.

When focusing on risk management, the challenge is to balance the rewards of change with the potential downside, which could include breaking your entire business if there are problems. Risks can manifest themselves in a number of ways: from not being able to transact business because a migration went poorly, through to not being able to complete your change program in time, causing lower profits or perhaps being in breach of government legislation. Risks also have a positive slant such as the risk of not changing when your competitors are.

Cost is, again, a two-way street. We tend to think of cost in terms of containing capital spend, such as when implementing a new solution. However, you must also consider the cost of missed opportunity and missed revenue, because you didn't implement the solution.

When taking a strategic view (I finally dared to use the word), you can establish the profile for your business and create a general approach.

An Insurance Company Example

I will illustrate this with an example of a mid-sized insurance company when faced with having to:

- Launch new insurance lines quickly.
- Improve the workflow of their business systems.
- Reduce the cost of staff training.
- Improve the internal and external perception of their systems.

Although our sample insurance company ranked innovation as high, the most important measure was risk and that any activity shouldn't put the business at risk. When they were looking at a change strategy for their core insurance application, there was a conflict between the requirement for high levels of innovation in a short timeframe and the risk of breaking the business. Because of this, a rip-and-replace strategy on the existing systems was not seen as appropriate.

Other considerations included:

- The business must be put on hold while investigating, selecting, analyzing and delivering the new system. This prevents any innovation for months or even years.
- The implementation of a vanilla package typically delivers a backward step in functionality as it usually needs to be recustomized to your bespoke business practices. Addressing this then takes more time and resources.

Figure 1 below outlines the options that were considered by the IT management team when evaluating a blended approach. Your perspective may well be different.

By mapping the business interpretation with the IT view, they were able to select Modernise/Extend as the most suitable approach for their core insurance platform.

If you do this at a departmental, level you can use the results from Figure 1 to select the most appropriate approach for each area of your systems. Figure 2 provides an outline of this insurance company's view on how to approach the change program for their entire application portfolio.

The usual 'your mileage may vary' statement must be inserted here as the profile of this insurance company may well be different to your company.

So with the high level approach agreed for each functional area, the next challenge is to get the money in place from your sponsors and the timeline agreed for your change program (don't call it a strategic change program). And that's a whole other article. ■

Figure 1

	Innovation	Risk	Cost
No Change	Low	High *	High **
New Package	Med/High ***	High	High
Modernise/Extend	High ****	Low	Low/Medium
Modernise/Migrate	High ****	Med	Med

* High Risk to the business as it may hit a wall when IT can't react fast enough to the changing business landscape

** High Cost to the business due to cost of lost opportunities, e.g. not being able to create new lines of business

*** Innovation might be low for several years, because while a new package is being implemented, improvements to the existing system are typically put on hold.

**** Innovation where it matters most

Figure 2

	Approach
Back Office System 1	Modernize/Extend
Back Office System 2	Modernize/Migrate
CRM	No change
Personnel	New package
Finance	New package
Distribution	No change

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