

HOWTO

CHOOSE LARGE ENTERPRISE SOFTWARE

BUYER BEWARE

A SHAKE-UP AT THE TOP END OF THE IT INDUSTRY COULD HAVE A BIG INFLUENCE ON YOUR CHOICE OF SOFTWARE PROVIDER, WRITES **LESLEY MEALL**

Choosing software and systems for large enterprises has never been easy, but then again it has never been more difficult than it is right now.

It's a case of buyer beware. Oracle's recent acquisition of IT all-rounder Sun Microsystems is clearly an epoch-defining moment, though how it shakes down in the future remains to be seen. Meanwhile, it has created a level of uncertainty and speculation in the information technology industry that must be just a little troubling for the allies, competitors, vendors and partners of Cisco, IBM, Fujitsu, HP, Microsoft, Oracle and myriad other suppliers. It's not much fun for customers either.

On top of the many complex issues and concerns that large organisations must always factor into any decision relating to systems procurement strategy and policy (see box), they now need to face up to the spectres of:

- Product rationalisation. What will Oracle do with MySQL?
- Strategic re-alignments. Who will Cisco collaborate with next and, if Oracle retains Sun's hardware business, will Dell and HP move closer to Microsoft?
- The battle for the cloud. Will the Sun-swollen Oracle compete on the platform as a service front?
- Further market consolidation. Will IBM buy SAP?

With so much up in the air, and so much to potentially win or lose for all of those who are directly or indirectly affected, now is a difficult time to go shopping for enterprise systems, undertake a technology refresh or make any really big decisions about associated strategies – even if the recession is pushing organisations to do everything they possibly can to get more bang for their buck from their IT spend.

However, if needs must, and your organisation can't afford to spend a few months playing 'wait and see' then, from a theoretical point of view, the process of systems selection remains much the same as always.

Even if you hand some of the associated processes over to consultants, at the very beginning (at least), you will need to create a multi-disciplinary team to help with the evaluation of processes and the definition of needs. On the basis of vendor responses to requests for information (RFIs) or consultants recommendations you can then draw up a shortlist and send requests for proposals (RFPs). The vendors can then be invited to demonstrate their solutions – but before any decision can be made all of the following (and more) must be carefully evaluated.

- Cost
- Product functionality and flexibility
- Product technology requirements
- Role of existing systems and software
- Process fit
- Fit with corporate strategy – short term and long term
- Vendor service and support
- Vendor corporate strategy
- Vendor diligence and viability
- Vendor corporate strategy

Just defining, measuring and ranking all of the necessary criteria can be a nightmare of confusion, whether you are choosing business intelligence software, collaboration tools, datacentre storage or servers, rationalising your database management systems, looking for middleware, deciding on an operating system, outsourcing processes or services, streamlining your administration, setting up a private cloud or consolidating your ERP systems. They each create a host of different selection criteria, interoperability issues, plus strategic and operational challenges.

FOCUS ON THE BIG FOUR

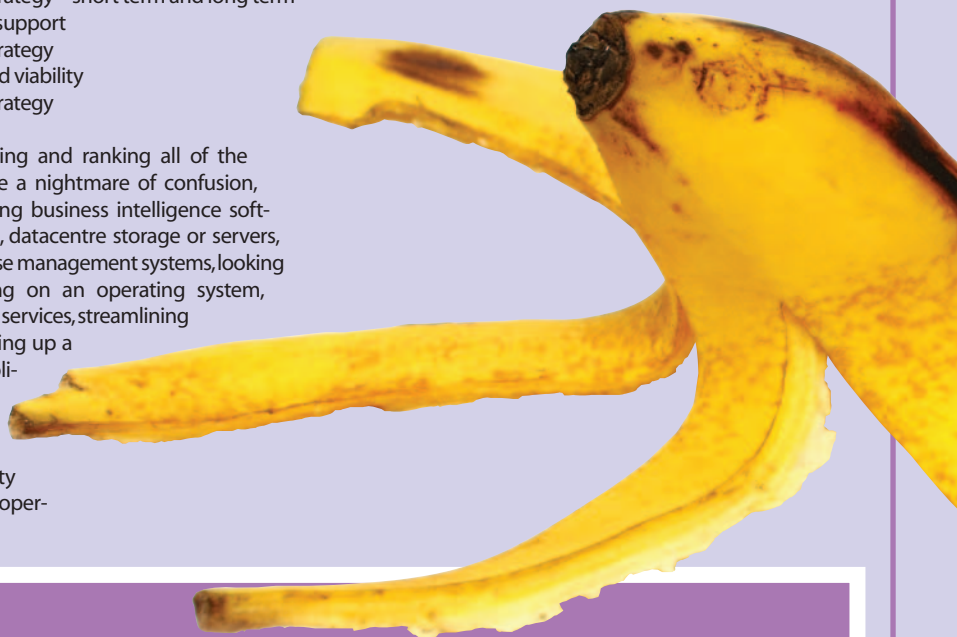
At the moment, heterogeneity rules enterprise IT, with IBM, HP, Microsoft and Oracle all occupying slightly different but overlapping spaces. IBM is positioned as an integrated infrastructure (hardware and software) and services company and, although HP doesn't have its own database software, it also focuses on storage, servers, outsourcing and service solutions. Oracle and Microsoft started out as software infrastructure vendors, but over the years both have moved (at different speeds) into the applications arena.

All four of these giants now have product portfolios so wide that some organisations could (arguably) benefit from negotiating enterprise-wide licenses for many (if not all) of their IT needs, rather than diddling about with the best-of-breed approach (see other box), particularly in areas such as collaboration tools, server database software, middleware and operating systems. But, by the end of 2009, this landscape could look very different. Oracle could emerge as the 'über one-stop-shop', offering applications, services and (hardware and software) infrastructure, as well as being reasonably well positioned to exploit the shift towards cloud computing and 'platform as a service'.

Overlapping products, integration issues, system compatibility and incompatibility, internal politics, consultants' conflicts of interest, vendor relationships, vendor portfolio complexity, vendor hype, complex software licensing schemes and cost of ownership calculations, tricky service level agreements, multi-vendor offerings and emerging industry trends are just a few of the many complications that could trip you up along the way.

Get the process right, and there are enormous benefits; get it wrong and the results can range from disappointing to devastating. So, buyer beware.

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BEST-OF-BREED OR ONE-STOP-SHOP?

Choosing between best-of-breed and one-stop shop has always been a difficult judgment call. Using multiple suppliers can reduce risk and be used as a bargaining tool to keep prices down and service levels up, but it hampers the supplier consolidation that could minimise administrative complexity and overheads.

Weighing up all of the pros and cons will remain a complex process, no matter which way Oracle jumps. But the changes could benefit many organisations, whether the increased competition brings keener prices, better service and improved features, or new offerings that bundle hardware, software and services.

It remains to be seen how Oracle will position itself post-Sun, and it would be foolish to make any decision on the basis of either its declarations of intent or the suppositions of sooth-sayers. If all goes smoothly, the Oracle/Sun deal could be finalised by mid-summer. But we will have to wait longer for answers on the big questions.

Analysts expect it to take another 90 days before Oracle provides any definitive guidance on issues such as customer support, product portfolio, sales and marketing organisation, and so on.

Until then, all bets are off because Oracle, as a new powerhouse in the IT industry, is about the only certainty.

LOCATION, LOCATION, LOCATION

NEW CITIES AND COUNTRIES ARE EMERGING AS POTENTIAL PLACES TO OUTSOURCE YOUR BUSINESS PROCESSES, SO MAKING A CHOICE IS NOW MUCH MORE COMPLICATED, EXPLAINS **RAKESH MAJITHIA**



KPMG Advisory has identified 31 cities which are rapidly emerging as the leading pretenders to the business process outsourcing (BPO) crown held by traditional powerhouses such as Bangalore, Chennai or Shanghai. These include:

- Buenos Aires, Campinas, Curitiba, Calgary, Winnipeg, Santiago, Guadalajara, Queretaro, Boise and Indianapolis in the Americas;
- Brisbane, Changsha, Hangzhou, Ahmedabad, Jaipur, Nagpur, Penang, Davao City, Iloilo City and Ho Chi Minh City in the Asia-Pacific region;
- Sofia, Zagreb, Cairo, Port Louis, Belfast, Gdansk, Cluj-

Napoca, Rostov-on-Don, Belgrade, Tunis and Lviv in Europe, the Middle East and Africa.

The 31 locations range from well-known cities in developed countries to lesser-known places in the emerging markets, well off the tourist track. Buenos Aires, with its population of nearly 13 million, thus features alongside tiny Port Louis, in Mauritius, with its population of a mere 130,000.

Despite the difference in size, both are emerging as important future outsourcing centres, with the latter rapidly developing an international reputation as a disaster recovery centre. *Rakesh Majithia is associate partner in the sourcing advisory practice at KPMG.*

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WHAT TO LOOK FOR WHEN LOCATING BUSINESS PROCESS SERVICES

The location for IT-BPO services is a key driver for cost and service quality and therefore finding the right location is critical.

There are few 'short-cuts' to finding the right location and, although all eventualities cannot always be considered in advance, a basic location analysis should adhere to the following basic principles in order to increase the probability of yielding the optimal result.

1. BUSINESS NEEDS

Requirements should be accurately defined and articulated in a manner that reflects the company's needs. What skills do we need? How can our requirements be measured to some degree of accuracy? Are we considering all the important aspects of our business? How can we choose location criteria that anticipate changing conditions in the investment environment or our own business?

2. PRIORITIES

Defined needs should be weighted to reflect the specific preferences of the company. This requires a process that is both methodologically sound while generating consensus from key stakeholders regarding project priorities. Simply scoring criteria on a scale of one to ten or using 'off-the-shelf' weightings that reflect the preferences of other companies do not adequately capture an individual project's specific situation and requirements.

3. COMPROMISE

Expectations regarding project deliverables should be realistic. Companies tend to want the 'perfect' location – skilled workforce, low costs, state-of-the-art infrastructure and an accommodating government and business environment.

The bad news is that the perfect location does not exist – there are always trade offs and companies must be clear about how much of 'factor A' (eg. costs)

they are willing to give up for a little more of 'factor B' (say, ease of doing business). Expectations regarding timing should also be realistic.

4. SITE VISITS

In the age of online databases and freely available country rankings, it is easy to underestimate the difficulty of obtaining reliable and accurate data. There are no online databases comparing the graduate output of various universities across India. Neither is there a reliable source of labour cost information for IT programmers in central and eastern European cities.

Information of this type can only be obtained through thorough primary research, which involves gathering accurate data through conversations with people on the ground that are familiar with the relevant investment conditions.

Do not underestimate the value of a site visit and conversations with other experienced business people conducting business in that location. For example, local business groups, professional associations and chambers of commerce

5. LOCATION SPECIFIC DATA

Finally, the analysis should always focus on cities and not countries. Although country level information may be helpful with respect to factors such as business regulations, tax and overall industry size, the real factors affecting the ability to set up and operate a business varies significantly at the city level.

Using country level data to compare countries such as India or Russia is unrealistic and blurs the often immense differences in costs and conditions between cities. Even within countries as seemingly small or homogenous as the Philippines, labour costs can vary significantly across cities. One reason why so many studies tend to compare countries rather than cities is that accurate information on cities is simply more difficult to find.

TO OUTSOURCE OR NOT?

What are the factors companies should consider when deciding whether to outsource?

1. Cost reduction. IT upgrades, standardise common business processes.
2. Management information quality. Improve decision making, optimise working capital.
3. Organisational flexibility. Strong signal for change, base for future off-shoring or on-shoring, provide focus for continuous improvements.
4. Technology implementation
5. Service quality
6. Controls. Reduce governance burden, consistent controls, process visibility.

UPS AND DOWNS

Key risks to consider when outsourcing include:

- Delay, drop or loss of services or deliverables.
- Work-force and managerial attrition may affect quality, cost, and timeline of services.
- Sub-contractors or third party vendors may stop delivering to an outsourced provider due to fear of payment defaults impacting the provider's ability to deliver services.
- Likely impact on costs and the organisation itself.
- Security and compliance exposure.

Potential benefits include:

- Overcoming an impediment to growth.
- Processing requires too much management attention.
- Turn fixed costs into variable costs to better manage volume swings.
- Access to specialised skills.
- Improve geographic coverage.
- Improve or maintain regulatory compliance.