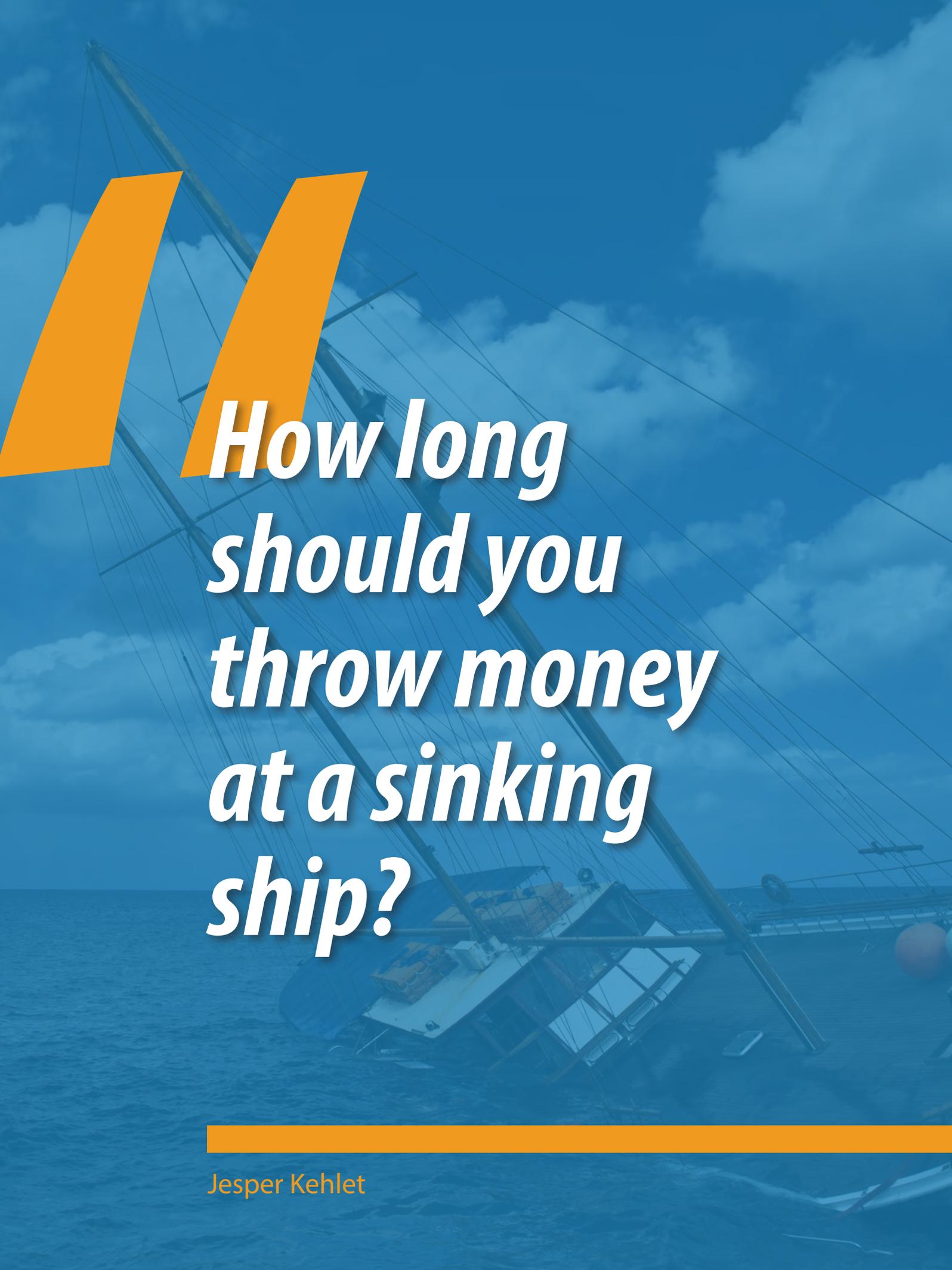


The Cost of NOT Upgrading Your Legacy Version of Dynamics AX





***How long
should you
throw money
at a sinking
ship?***

Jesper Kehlet

Introduction

Are you walking the line on upgrading from your current version of Dynamics AX?

If you're using AX 2012 or earlier and you're just not sure an upgrade is in the cards, it's important to note that options in maintaining a legacy system soon will become fewer in number and certainly more expensive. Mainstream support for Microsoft Dynamics AX 2012 R3 ends in 2021, or 2023 for extended support.

Sometimes indecision can be just as, or more, costly than the solution. So we recommend taking a hard look at all your options.

We typically start helping a client organization determine its upgrade readiness by asking a few key questions during a thorough discovery process. Among the discussion is:

- **Would an upgrade provide greater functionality than you currently have?**
Functionality that would provide business value?
- **Are you spending more time and money keeping the legacy system alive than you would in replacing your ERP?**

Whether or not a more recent AX version would provide greater functionality should be an easy question to answer. It's pretty straightforward to assess whether or not the added features or functions of a newer version provide enough business value to warrant the upgrade.

On the other hand, we've found that the question, "Are you throwing money away today in trying to keep a legacy system alive?" is the more loaded one to address.

“Sometimes indecision can be just as, or more, costly than the solution.”

Jesper Kehlet, CuroGens CEO

Case in point:

\$450M+ manufacturing client

Annual cost to maintain a legacy AX system: \$1,500,000

Cost to upgrade: \$1,000,000

100% ROI achieved: <30 months

So what is the cost of maintaining a legacy system vs. upgrading?

- ① Do you know how much you're spending today just to support and maintain your ERP environment? What are your operational costs such as software maintenance, architecture updates, internal time and resources, consulting fees, hardware replacements, etc?
- ① Have you compared those costs to a (at least partially) cloud-based system and an environment maintained daily through a full service management agreement? Consider the impact of a predictable monthly expense and consistent environment support.
- ① We can't talk about the cost of not upgrading without also addressing the potential ROI. There are direct costs today that are simple to spell out, but longer term returns should also impact decision-making.

Should you upgrade now?

5 AREAS FOR CONSIDERATION

1 *Productivity*

2 *Performance*

3 *Intelligence*

4 *Agility*

5 *Consistency*

Productivity

One of the most tangible areas to analyze whether it's time to upgrade is operational costs — particularly staffing productivity.

Does the business value you're getting from your application outweigh the time your team is

spending trying to keep it alive? How much more do you really want to continue to sink into a system that is never going to get you what your business leaders need to make strategic decisions today or in the future?

scenario: compare the costs

For the last 3 years, you've spent nearly \$300,000 per year on inside and outside manpower costs just for the maintenance of a legacy application that increasingly is not meeting business needs. Could it be a better investment to upgrade? Maybe not in year 1 — but ROI likely increases year over year.

STATUS QUO (cost for another year)	UPGRADE + Year 1	Year 2 Post UPGRADE
STAFF: Equivalent of 2 FTEs just working break/fix Salary + Benefits = \$70,000 + 30% = \$182,000 for 2 FTEs	Employees remain supporting the legacy environment while upgrade in process = \$182,000	Reassign 1 FTE to value-creating initiatives for long-term ROI or reduce one FTE for a gain = (\$91,000)
Outside consulting fees just for maintenance = \$100,000	Upgrade implementation fees = \$200,000	\$10,000 per month for SLA hosting, maintenance and monitoring = \$120,000
Infrastructure maintenance or replacement for internal servers, SQL server, 3rd party applications, etc. = \$50,000	Start process of moving to cloud, less infrastructure owned to maintain, no upfront investment	Move to the cloud complete; pay for only the storage you use = \$60,000
Estimated loss in increased revenue through innovation because staff focused on break/fix = \$200,000	Estimated loss in increased revenue through innovation because staff focused on break/fix = \$200,000	Revenue gained through innovation and focus on more strategic initiatives = \$200,000
EST: \$532,000	EST: \$582,000	EST: \$389,000

Continued investment in IT spurs a positive cycle in productivity and profitability. It may seem arduous to convince leadership of the need for reinvestment, but ask an ERP consultant to help you do the math. The short-term payoff is far greater than the expense.

If you're still using AX 2012 or earlier, in five years Microsoft will no longer support the application or provide updates or hotfixes. This means all application maintenance will have to be done at the expense of the customer by ERP consultants — for a premium price and for only as long as they're willing to do so.

questions to ask



If you are struggling with a legacy system and productivity, explore these questions:

- What is my team not doing that could contribute to the advancement of the company?
- How many FTEs are just working break-fix on a weekly or monthly basis?
- How many business processes now rely on manual data entry or rekeying?
- To what degree is the state of the application today slowing down business processes or advancement?
- How many times is IT delayed in getting requested data and reports for leadership?
- What hardware am I anticipating will need to be replaced or upgraded over the next two years?
- Does my internal team have the capability and experience to support an upgrade project?

Performance

It's a fact that the older your environment is, the less return you will get out of it.

Business needs, data and processes change and it's unlikely that your system can be customized adequately to respond to changing requirements.

Is the response time of your legacy system slowing or is it getting increasingly more difficult to access information?

Will it pay off to try to fix it?

case study: MRP hotfixes vs. AX 2012 R3 CU13 upgrade

3,000 objects
6 months
\$100,000 +
= little relief

A \$400M+ manufacturing client in rapid growth mode was experiencing increasing latency from their system. We were asked to apply the latest Material Requirements Planning (MRP) hotfixes, which touched more than 3,000 objects in AX 2012 R2. As a result, the company experienced only a small amount of relief.

Because of the nature of implementing hotfixes rather than Cumulative Updates (CU), this measure cost more than \$100,000 and took six months to implement. In comparison, we could have upgraded to AX 2012 R3 CU13 in the same time frame and avoided many additional hotfixes.

Like many growing companies, our client's system became more and more poorly optimized as time passed and the business grew. The AX environment was built to support the business at a certain period in time.

And over the years it'd been integrated with various third-party applications and customized over and

over to support growing volumes of data, greater reporting needs and increasingly complex processes.

Our client chose to update because they simply don't have time to waste. After all, time is money.

questions to ask



If you are struggling with a legacy system and performance issues, explore these questions:

- How much money am I spending on software licenses that don't deliver new functionality to the business?
- How much am I spending on quick fixes that won't serve the company into the future?
- How much am I paying a consultant and how well are they helping us optimize the legacy environment?
- Are instances of failure or inability to access data increasing?
- How many times has our application failed in the last year?
- How much have those failures cost us in fees and lost productivity?

Panorama reports that nearly 50% of IT managers realize some business benefits from ERP implementations in less than 6 months.



Intelligence

Is strategy driving your business or is technology?

In many of the rescue situations we've been brought in to, we've found that companies have built their processes and workarounds based on the capabilities of the legacy application. How long is "taking what you can get" from your system good enough?

An ERP is designed to support business growth. Key datasets and performance indicators need to be available to help leaders make sound strategic decisions, respond quickly to market changes, and identify negative trends in sales or customer service, for example.

scenario: impossible or delayed reporting



Your company was recently acquired and your new CFO wants a complete report regarding inventory from each of your 10 U.S. and three Canadian locations by the end of the week.

To give the CFO what he or she needs, you must bring in a consultant to write a special report query and integrate the three disparate inventory tracking systems used at various locations. Not to mention, your systems aren't set up to take different currencies into account.

It could take several weeks. In the meantime, the CFO is not impressed and could start considering other options.

Bottom Line: If you've lost confidence in the quality or accuracy of the data and the integrity of too many integrations, how can you have confidence in the reporting? And how can your leadership team?

questions to ask



If you're not able to facilitate the business intelligence reporting your leaders are requesting, you may need to ask yourself:

- Why am I not able to give the new CFO what is needed? What's the history and how is IT accountable?
- How satisfied have we been with the counsel and support from our IT partner?
- Will upgrading give us the added BI reporting functionalities we need?
- Are all our locations tracking and monitoring data the same way? If not, will an upgrade address interconnectedness?
- Do I completely understand what data and KPIs are most important to our business leaders?
- How will this acquisition impact our data and technical requirements? Is it best to start with a fresh implementation?

Agility

Poor agility in an ERP causes a negative trickle effect in sales and profits — the primary performance indicators of your business.

The biggest question to address is, "Is our ERP a barrier to business growth?" Or is it flexible enough to easily accommodate rapidly evolving processes and data requirements?

case study: business is booming but the ERP is sluggish



A manufacturing client serving industrial, life science, medical, and defense segments is acquiring companies several times per year. The legacy AX system just couldn't keep up with the demands related to M&A growth.

Not only was our client growing at a rapid pace, but they were adding new technology to their manufacturing lines. This meant leadership wanted greater and more timely detail to monitor cost competitiveness and speed to market on low volume/high complexity inventory controls and lead times, as well as raw materials costs and waste.

It took 12 months to provide a more stable, agile version of AX. One that would meet the client's needs today and well in to the future.

Integration between your various systems should be seamless with a well-functioning ERP. If it's not, productivity will suffer and human error can cause inaccuracies that would otherwise be preventable.

Additionally, there's no room for an ERP system that is not highly accessible or mobile friendly. Moving to at least a hybrid configuration will help ensure mobile devices can easily interact with the ERP and pull or push data from wherever it's necessary.

questions to ask



If your ERP is just unable to scale fast enough to meet new demand, you may need to ask yourself:

- To what degree is organizational growth being constrained by obsolete software?
- How is movement into new markets being limited because of infrastructure?
- How is lack of scalability or flexibility limiting the company's growth?
- What is the company's growth goal for the next 5 years? Organic growth through sales or growth through mergers and acquisitions?
- How much time and money could we save by moving our tech stack to the cloud? At least partially, if not completely?



*A 2017 Aberdeen study on ERP and Analytics, reported that the **top pressures** for today's complex businesses are to **keep costs in check, manage business growth and react quickly to changing markets.***

Consistency

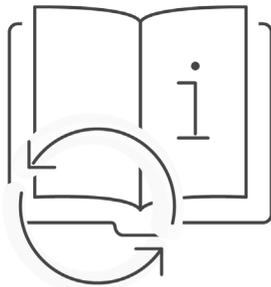
Do you have the historical roadmap for your current implementation? How many people on your team know the history of your current application configuration?

A key benefit of a new implementation or upgrade is the utilization of product lifecycle services. This facilitates controls and effective recording of

configurations, while tracking methodologies for those implementations.

Microsoft's Lifecycle Services "hold a full business process library of processes for training and control" making upgrades a simpler process for organizations than it may have been in years past.

scenario: poor succession planning



A manufacturer of high-end electronics has been using the same legacy version of AX since 2014. Four years isn't all that long, but it is in technology years.

The company has had two CIOs in that time, not to mention an IT turnover rate of 50% and fiscal services staff reductions. The people who conducted the data migration and technical implementations are gone.

In the past two years, \$260,000 was spent with an IT consultant. The internal IT team is struggling with invalid data and process errors. And maintenance costs will only continue to increase.

For consistency and good succession planning, it's imperative that a multi-disciplinary team actively participate in implementations and maintaining historical configurations.

Additionally, it's our experience that IT initiatives must be championed from the top down. Major projects led by a C-level executive (who has supported the business case) are most likely to

provide the most painless and cost-effective routes to timely completion and long-term success.

Secondly, you should have full trust that your ERP consultant helps to provide consistency. A well-qualified and experienced partner can not only maintain and monitor your system to ensure optimal performance, the consultant should proactively counsel you regarding future update roadmaps.

questions to ask



You may need to ask yourself the following questions if you've experienced poor performance of your ERP, largely due to inconsistencies:

- Is the data mapping of our system still accurate and could it be followed by new staff or consultants?
- What processes are in place to ensure streamlined succession in case of staff turnover?
- How well are new employees onboarded and trained to support our AX environment?
- How much does poor employee productivity due to inadequate training or historical information impact business performance?
- If we opted to upgrade, is training of all team members a priority of leadership



*According to a 2013 study by Aberdeen Group, mid-market organizations that **remain updated** on the latest version of their ERP are **twice as likely** to keep up with growing business demands than those that don't have the ability to tailor their solutions.*

Final Notes

ARE YOU READY TO ASSESS WHERE YOU STAND WITH UPGRADE READINESS?

When the right ERP system is properly configured, implemented, and supported – it can provide substantial benefits in the form of streamlined processes, improved decision making, and increased profitability.

More often than not, if your AX version is not consistently meeting your business needs and is highly customized with layers of integration, it is costing you time and resources. An upgrade or re-implementation is often less expensive and provides a quick ROI over the costly demands of a legacy system.

If you're not sure where you stand with upgrade readiness, or if you know it's time and you need a reliable ERP consultant, contact us.

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