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Benefits of Application Rationalization: Reduce Costs and Improve Service with a Systematic Approach

Executive Overview

Organizations throughout the public and private sectors face the imperative to improve support for operations, reduce costs, and improve efficiency. When efforts to do so are not aligned with business objectives, organizations end up spending billions of dollars on initiatives with only short-term benefits. In addition, the need for adequate security is an overarching concern that pervades all aspects of daily operations and, with related corporate and government reporting mandates, adds a compliance obligation as well. Application portfolio management (APM) solutions, such as Oracle's Primavera Portfolio Management, are powerful toolsets that deliver transparent processes with dramatic results. APM allows organizations in the commercial and government spheres to manage their software application portfolios—completing application rationalization to achieve enormous cost savings and improve efficiency.

Introduction

In the late 1990s, there was a big push for application remediation in the commercial world to address the then-looming Y2K problem. Organizations went through the application review process as a one-time event, managed their way through the transition, and went back to letting their application portfolios gather dust. Now, beset with challenges from the need for ongoing compliance to mergers and acquisitions to budget crises, the realization is making it clear that there will always be another “event,” and that ongoing active APM is a must.

Against this backdrop, and with leadership under pressure to deliver more with less, APM should be fertile ground for identifying and harvesting funds for reinvestment. In most organizations, the cost for operating and managing applications makes up from 75 to 80 percent of the budget. There is a clear need to objectively prioritize software investments and measure the business value derived.

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— META Group (now Gartner)

What Is Application Portfolio Management and Application Rationalization?

According to industry analyst META Group (now Gartner), “Recent research indicates that application portfolio rationalization succeeds best when driven by honest information patterns in conjunction with the CEO’s mandate for improved business processes. Through that combination, CIOs are finding an average of 20 percent immediate cost savings (within 12 months of implementation) along with improved IT value positioning.”

Gartner confirms that a focused application rationalization effort will typically result in substantial cost savings while improving support for the lines of business. These savings are too large to ignore. Additional benefits include a simplified infrastructure and an availability of resources—allowing organizations to focus on what really matters. To reap the benefits of such efforts, executives must begin by gaining a good understanding of APM and application rationalization.

It is essential to continually govern the application portfolio through application rationalization and portfolio management. To be done right, APM must also incorporate strong project management. The emphasis on ongoing portfolio governance, rather than a one-time rationalization event, is critical to success. The result of such vigilance is a business-driven evaluation of applications that delivers substantial savings, along with a governance system that keeps your application portfolio “clean” and current, so you always know the value of your investments. Furthermore, if you also adopt a project portfolio management solution, you’ll know the current status of each application-related project at any point in time. This ensures that the decisions made in the rationalization process are actually translated into an action plan and completed. Application rationalization does not just ensure you meet technical requirements, it is also a business and financial analysis mechanism that is essential to a coherent investment management strategy.

Application rationalization means

- Selecting your applications based on business need and prioritizing related actions (choosing what you will do and what you won’t do)
- Effectively managing the value of both existing and proposed applications

- Monitoring changing priorities and application value in real time, continually reviewing and adjusting as necessary

A Systematic Approach to Application Portfolio Management and Application Rationalization

Application rationalization is best achieved through the adoption of an APM solution that provides a framework to keep the portfolio clean. It also provides the necessary infrastructure for dealing with the next unforeseen event—whether it involves security remediation, architecture compliance, or some other new requirement. In its simplest terms, application rationalization can be described as a three-step process:

- Application inventory
- Application evaluation
- Transformation recommendations

Application Inventory

The process of rationalizing your applications begins with capturing an inventory of all applications currently in use. Virtually every organization has executed an application inventory collection effort at some time or another. One element that characterizes these efforts is that they are usually one-time events marked by a push to collect application data, which results in a new spreadsheet (one that is probably different from and unrelated to the one collected 18 months earlier). Some painful manual analysis is done on the collected data, and a few actions might be taken. In truth, however, there is often no continuity in the process, data, or analysis. So the next time, the organization will potentially go through the same time-consuming process all over again.

Automated tools can vastly improve application inventory, by quickly identifying servers and software installed on your network. This process produces an initial inventory to help you actively manage your infrastructure within your portfolio management system of record. It also performs incremental synchronization to easily identify changes in the portfolio or on the network.

But there is no substitute for human intervention when it comes to determining basic information such as business process support, application owner, intended user population, and costs. Completing such an inventory will usually reveal many overlapping and duplicate applications that are candidates for consolidation.

Application Evaluation

Application evaluation can be simple or elaborate, depending on organizational maturity. For some organizations, just reviewing support for their mission objectives and capturing an estimate of application costs will be a substantial accomplishment, and enough to identify where to “cut the fat”—those applications that obviously don’t belong in the overall solution.

If a recommendation for an application isn’t obvious, a more-detailed evaluation is required. Although this could involve a wide array of criteria, some key considerations would include the following:

- How does the application fit with technical standards?
- Does staff have the necessary skill set to use it to best advantage?
- Are users satisfied with its performance and benefits?
- Are there better alternatives?
- What are the maintenance costs?

Whatever level of analysis is applied, when the evaluation process is completed, you are able to recommend actions to take for each application. These might include replacement, retirement, upgrade, or maintenance.

Transformation Recommendations

Once you know the recommended action for each application, you’ll realize that some are easier to implement than others—and some might even conflict. Some applications can be candidates for immediate retirement, while others can be retired within the year. Most organizations won’t have the budget and resources to follow all the recommendations at once, even if top executives wanted to take such drastic measures.

Using an APM system, you can prioritize each of these transformation recommendations based on resource availability, budget, business impact, dependencies, and other factors. What-if scenarios allow you to look at alternative sets of application changes to arrive at the optimum set of changes based on the current state.

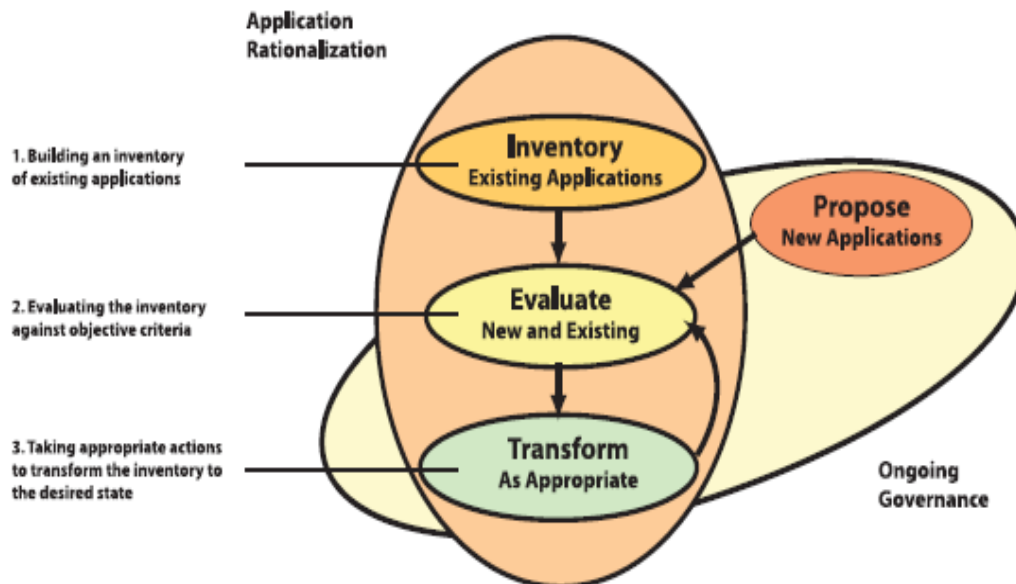
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At this point, it’s time to implement the changes so you can reap the benefits. Although that seems obvious, many organizations have paid generously for recommendations that are never implemented. Portfolio management is an excellent way to track the projects supporting these application recommendations and to see them through to completion in order to realize the full value of the process.

Ongoing Application Governance

Until now, the focus of this white paper has been on the rationalization of existing application inventories. But keeping an application portfolio clean is a vital, ongoing governance process.

- **Operational review.** The results of the operational review might reveal the need for adjustments to the portfolio. It's important to track the operational quality of your applications to help determine the most appropriate adjustments. These reviews and the resulting adjustment recommendations might assist in budget planning as well.
- **New application proposals.** As part of the ongoing governance process, good portfolio management solutions provide scorecards and financial models to help determine when a new application should be acquired and deployed. You can capture application proposals, score and rank them, and model the alternatives, thus preventing wasteful expenditures.



Application rationalization helps you achieve ongoing governance with a three-step process, and incorporates continual review of new application proposals throughout the cycle.

When Application Rationalization Can Help

As with any strategic initiative, it is important to build a strong business case before proceeding on the application rationalization journey. APM ensures that your investments are in sync with changing business needs and trends. At the technology level, it improves the overall effectiveness of IT, ensuring that IT is not a reactive function anymore—no longer playing “catch-up” with

the business. At the business level, APM allows you to do more with less and helps you achieve your overall business objectives.

The value and impact of APM can be understood in the context of various strategic initiatives:

- **Mergers and acquisitions.** Application rationalization can be performed before and after mergers and acquisitions to assess the best strategic fit and postmerger consolidation.
- **Business process management.** Application rationalization can provide insights into gaps or redundancies in the current application portfolio, enhancing an organization's ability to hone business processes. In doing so, the business can introduce innovative products, provide customer service, and manage risks more efficiently and more effectively.
- **Compliance management.** Organizations need to know if their applications put them in danger of noncompliance. Application rationalization allows the organization to look at its systems from an aggregate compliance score perspective, facilitates transparency, and then manages the application investments from a lifecycle management perspective.
- **Enterprise architecture.** By consolidating technical and enterprise architecture, organizations are able to reduce the costs of their infrastructure. This provides agility to the business, which enables faster rollouts of new products and technologies that drive the bottom line.
- **Vendor management.** Application rationalization can arm management for vendor negotiations by giving them the advantage of a detailed application inventory, the risks associated with it, and its business value. Once on an even playing field, the organization can negotiate wisely and put terms into an agreement that place demands back on the vendor to reduce risk or add business value—going way past pursuing price reductions.
- **Outsourcing.** Prior to outsourcing, experts say organizations should have a good sense of the value of investments they have already made, the value and risks of outsourcing, and specifically what their money is accomplishing through their outsourcing negotiation. Knowing what assets are in their application portfolio and what services they need to acquire will ensure that businesses set up the right outsourcing agreement.
- **Audit prioritization and remediation.** It is critical to know which aspects of operations run the highest business and technical risks, so they can be articulated and addressed. An APM solution allows executives to share insight into such risk by enabling them to create a single system of record that gives a consistent live view of the business benefits of their application inventory. Quantifying these benefits will be specific to the context of the particular organization. Consider two real-world instances:
 - One large U.S. insurance company in the Midwest discovered that 15 percent of its applications could be decommissioned immediately with no impact to the business, resulting in substantial savings. The company now spends 37 percent of its time on maintenance of applications and 63 percent of its time on new project development—a complete reversal from how the organization divided its time three years ago.

- A major Fortune 100 financial services company went through a merger in only nine months. It targeted nearly 450 applications for retirement through the APM process, which translated into more than US\$7 million in savings to the business.

The Benefits of Application Portfolio Management

There are many benefits to managing your application portfolio and instituting an application rationalization process. These benefits mean substantial cost savings for your organization:

- **Free up money for new initiatives.** The evaluation phase is almost certain to uncover significant opportunities for cost savings. These savings can be applied to applications that truly serve the needs of the business.
- **Minimize future application purchases.** Good portfolio management provides mechanisms for screening requests for new applications. With APM in place, the decisions to deploy all future applications are made in the informed context of what is already deployed and what the benefits to the business would truly be.
- **Eliminate unnecessary investments.** The strategic value of a formal evaluation of each application is in understanding its contribution to the objectives of the organization. There's no point in investing in applications that don't help drive business.
- **Eliminate redundancy.** Using a strong portfolio management toolset and process, it becomes easy to identify applications that perform similar or identical functions for different parts of the organization.
- **Consolidate to adhere to standards.** A portfolio of applications that is too diverse costs far more to maintain than a consolidated portfolio. Consolidating applications reduces the standards with which you must comply and saves you money.
- **Reduce training and support requirements.** Each application that is in use requires some amount of support from either your own staff or a vendor's. This support costs money, and these costs go down for a given population when the number of applications or vendors can be reduced.
- **Prevent the “patchwork problem” from recurring.** With a sound application governance framework in place, you have a formal mechanism that ensures application deployments continue to move toward your organization's goals, are consistent with existing IT architecture, align with the primary business, and lower operating and support costs. Unlike a one-time review, ongoing governance pays dividends for years to come.
- **Ensure follow-through on application decisions.** Use a governance framework to oversee all your projects, including those related to applications. Whatever mechanism you use, it is imperative to track portfolio changes through to completion.

Short-Term and Long-Term Gains

Management needs to be aware of where the money is going and what they get for it. Confidence in the organization is dramatically bolstered when management can demonstrate that they are managing the application rationalization inventory via a centralized system of record. It takes foresight to initiate APM and determine where the money is going. It also takes a modest up-front investment to get started. However, an incremental approach yields early savings when your organization identifies the obvious ways to cut the fat in as little as 90 days, which can then be redirected toward subsequent phases of rationalization, making the effort self-funding. Although later phases take longer to complete, they lead to even larger gains and far better support for the lines of business.

About Primavera Portfolio Management

Primavera Portfolio Management is an enterprise investment management solution for business and government organizations. It offers tools that allow organizations to better plan and control all types of business or technology investments—deploying objective, auditable processes and metrics, while facilitating collaboration among all stakeholders. Primavera Portfolio Management customers achieve rapid results: rationalizing current spending, optimizing support for the business, and achieving ongoing governance to get the highest possible return on investment.

Oracle is the leading worldwide provider of project portfolio management solutions for project-intensive industries. The company's Primavera project portfolio management software helps companies propose, prioritize, and select project investments and plan, manage, and control the most complex projects and project portfolios.

Conclusion

At one time, it was enough for an organization to review its portfolio of applications as an isolated event in response to a critical issue such as noncompliance, a merger or acquisition, or a budget crisis. However, such a model in these times leads to billions of dollars in lost advantage and efficiency, and exposes organizations to security and business risks. One of the key drivers of improved efficiency and the streamlined business is application rationalization, a toolset that is part of the larger set of APM solutions. Primavera Portfolio Management enables organizations to complete the three critical steps in application rationalization: application inventory, application evaluation, and transformation recommendations. Solutions such as Oracle's Primavera Portfolio Management allow organizations to identify where investments are paying off—or are not paying off. Finally, the best course of action is identified, and applications are replaced, retired, upgraded, or maintained according to the most efficient strategy. Application rationalization ensures ongoing governance of the portfolio in times of crisis, as well as during routine operations.



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