Upgrading Your Systems: Stand Pat, Bite the Bullet, or Change Horses?

Upgrade costs can be very expensive, and in many cases, the cost to upgrade your system is second only to the license fee. Because of recent economic conditions, many firms that delayed upgrades are now faced with the decision of whether the right time to upgrade is now. In this edition of the CutterAdvantEdge, we introduce you to the decision framework CutterConsulting uses to help our clients with this critical decision.

Lance Ihinger, Managing Director of Cutter's Execution Services Practice, notes that "the decision to upgrade is a key component of systems and business strategy for most firms. The evaluation is complex and involves individuals across the entire organization. Nearly all large asset managers conduct annual reviews of their systems to determine priorities for upgrading; it is a time consuming and costly process to assess scores of systems, and those decisions have a significant impact on the business."

Will the vendor continue support of your version?

Eventually all systems must be upgraded or decommissioned. In some cases, the vendor makes that decision for you. Typically vendors don't support versions older than two major releases from the current version (for example, older than version 9.0 if the current version is 11.0) simply because it is too costly to support multiple versions at the same time. If you are using an older version, the vendor might notify you that they will discontinue support as of a specific date. At this point you need to evaluate whether you want to upgrade or replace.

How well does your current version meet your needs?

If companies have deployed an array of spreadsheets, databases, or side-systems to help end-users do their jobs, it is a strong indication that the current system is not meeting their business needs, and you should consider upgrading or replacing it. On the other hand, if users aren't complaining and the system performs well, there may be no compelling reason to change, unless the vendor is discontinuing support or there is company or product risk. But if new features offered in the current release could be important to your users, they could present a strong case for upgrading.

What is the vendor record for delivery of enhancements?

Critical to a sound decision is a clear understanding of the vendor's history for supplying upgrades, the timeliness of their delivery, and the quality of the upgrade. In many cases, vendors are forced to delay the release of new versions. This results in the vendor eliminating planned enhancements to bring in the release date.

What about vendor and product risk?

It's crucial to understand your vendors' financial soundness and the stability of their products. Of course, companies that are sound financially discontinue products, especially after a merger or acquisition involving two companies with redundant products. And companies can fail even if they have good products.   But you need to perform due diligence in evaluating vendors with which you will invest a significant amount of capital.

What level of effort is required for the upgrade and what about cost?

The timing of an upgrade often depends on the size of the effort and the organization's capacity to take on change. Several factors contribute to the cost, size, and complexity of an upgrade project:

o   **How many software releases are you behind?** The number of versions you have to "jump over" to get to the current version has a direct impact on the amount of testing required. In some cases, interim upgrades must be performed to reach the current version, frequently doubling the amount of testing that must be done.

- **Does the new version represent significant additions or changes to user functionality or workflow?** New system functionality usually necessitates new workflows for the end users mandating that they be involved in understanding the new capabilities including the redesign and testing of modified business processes. When done properly, this can result in improved efficiency and elimination of side systems and spreadsheets, but it takes time and effort to understand what the new system can do and how to best redesign the surrounding workflows.

- **Does the new version represent a significant change in database design or technical architecture?** As with significant changes to business functionality, major changes to the underlying technical architecture require significantly more testing than "simpler" upgrades. System integration testing, stress testing, and performance testing are all required. In addition, upstream and downstream systems should undergo regression testing to ensure that any database changes won't affect the content or format of data.

- **How many locations must be upgraded?** The complexity of the user organization is one of the largest contributors to the overall upgrade effort. If you have multiple installations world-wide, each region must conduct its own acceptance testing to ensure local rules and usage operate properly. If all regions must be installed simultaneously, resourcing can be a challenge and the complexity of the project increases. Where you are able to phase the installation across regions, the project is less complex but the overall time to implement increases.

Is the organization ready to undertake the effort?

Given the level of effort that is required to perform the upgrade, have you thought about:

- **Executive sponsorship**

  The process needs to be visible. Senior management needs to understand the reasons for this commitment and incorporate it into their priorities.

- **Commitment from users**

  The importance of user involvement cannot be overstated. Do you have the necessary motivation and commitment from your users? From the initial planning through post-implementation monitoring, the more they are involved, the smoother the upgrade will go.

- **Change management**

  Because major new functionality often requires changes to business processes, you need to be ready for the change management implications, including testing, training users, redesigning business processes, writing test scripts, and monitoring the installation after implementation.

- **Technical environment**

  Along with the underlying vendor system, you may need to upgrade the surrounding technical environment, including servers, operating systems, databases, messaging protocols, and other components. Make sure you understand the ramifications of these changes on both your budget and your organization. Identify if you have the required skills.

Is the risk of doing nothing greater than the risk of change?

To make an informed decision, you first need to quantify and understand the associated risk, which requires analyzing system functionality, the size of the effort, your organization's readiness, and other factors. How many other firms have upgraded to this version? Are you an early adopter, a late-comer, or do you fall somewhere in between? What type of system is being upgraded and how interconnected is it to other mission-critical systems? Upgrading a system at the center of your system architecture, like an accounting system or data warehouse, presents an inherently higher risk to the organization than upgrading a downstream system such as client reporting.

The bottom line: How much will it cost?

Finally, developing cost estimates is essential to making a good decision. Cutter's decision framework is an important step in helping to prepare reliable cost estimates and help you decide whether to upgrade the systems that support your business.