

Mainframe Elimination Service Approach

**By Michael Chapman,
Managing Director
CDS Commercial**

May 2012

MAINFRAME ELIMINATION SERVICE APPROACH: WHEN IS IT A VIABLE OUTSOURCING OPTION?

Companion Data Services (CDS) is providing this “white paper” to promote the concept of Mainframe Elimination Service Approach (MESA) services. The document attempts to explain the factors and investigations that both the interested company and the hosting vendor must consider in order to create a win-win business arrangement for both parties.

DEFINITION:

MESA describes an outsourcing service for companies that are at or near completion of a technology migration from a mainframe-based application systems environment to a server-based environment. For example, within the Blue Plans community one will find situations where a Plan has purchased and implemented a server-based enterprise claims system (such as Trizetto’s Facets) and no longer needs a mainframe to operate its previous claims system (e.g., LRSP).

Yet, in many situations companies find it difficult to completely eliminate their mainframe due to resident applications that are still needed for day-to-day operations, and that cannot be ported to a server configuration. Common examples include the Blue Cross Blue Shield Association (BCBSA) Interplan Teleprocessing Services (ITS) software, the Federal Employee Program (FEP) claims processing software, old claims system runoff activities, or possibly Human Resources or Financial/Accounting systems that have yet to be replaced by equivalent, server-based applications. For whatever reason, companies that have committed to server-based computing often find it difficult to completely eliminate their legacy mainframe. And, depending on the circumstances, the financial burden of retaining a mainframe and all of its support components can be significant.

MESA services enable a company to host mainframe applications with an outsourcing vendor, thereby enabling the company to eliminate the costs of operating and maintaining its local mainframe computer. Obviously, such an arrangement presumes that a sound business/financial benefit exists for both parties.

A hosting vendor offering MESA services cannot provide substantive financial benefit by simply replicating the company’s mainframe environment in a separate, dedicated computing facility. The only practical cost-saving strategy is for the vendor to absorb the company’s mainframe applications into the vendor’s computing environment with minimal purchases for additional equipment capacity, software, or software license upgrades. To maximize the financial benefit of this approach, a company seeking MESA services may be required to conform to the vendor’s local operating standards and conventions, and may be asked to consider adopting alternative utility software for its operational needs: e.g., IBM/RACF vs. CA/Top Secret, Mobius vs. CA-View, etc.

CIRCUMSTANCES & CONSIDERATIONS

The circumstances associated with a company's mainframe operation are major factors in determining whether a MESA strategy will result in sufficient cost and operating benefits to both parties to warrant executing this strategy.

Some of the more important considerations include the following elements.

Equipment Financial Status

The company's financial obligation for the mainframe and associated equipment may diminish or enhance the idea of outsourcing. Is it leased – for how much longer? If owned, is it fully depreciated?

Anticipated Timeframe Needed for Continuing Mainframe Availability

If a company requires continuing mainframe operation for less than a year, then any outsourcing financial or operational benefits may be overcome by project costs, outsourcing vendor operating costs, company internal labor costs and risks associated with moving the applications and learning how to do business in the new data center environment. From a vendor perspective, any new equipment or software costs required to support the MESA customer are typically amortized over three years. Thus an 18-month contract term, for example, will result in higher pricing due to the vendor's need for accelerated recovery of depreciated costs. Generally speaking, the longer the required mainframe operation retention period, the more advantageous an outsourcing arrangement might be for both parties.

Software Compatibility

More often than not, a MESA-candidate company uses a few unique software applications or software versions that require the hosting vendor to either buy that application from the software vendor (diminishing the financial benefit of the deal) or to seek a transfer of the candidate company's software license to the hosting vendor. Because software vendors use various methods of pricing, potential cost savings may also be diminished by increased software license fees for running in an increased MIPS region or LPAR. Such issues can quickly defeat the financial viability of a MESA deal.

Disaster Recovery

Disaster Recovery must be considered when anticipating a MESA agreement. A MESA-candidate company must consider its Recovery Time Objective (RTO), Recovery Point Objective (RPO), and the required frequency of disaster recovery exercises in determining whether MESA service is a correct decision. In addition, if there are server-based or third-party applications that interact with the mainframe, then consideration for synchronizing backup activities to preserve recovery-point data synchronization is also an issue.

Security

Not all data centers offer the same security features. A MESA candidate should take the time to ensure that the security provisions of the vendor’s data center are HIPAA compliant, and/or at least as secure as the company’s own data center.

FINANCIAL BALANCE SHEET

The savings/expense balance sheet for a MESA agreement is straightforward – depending on successful resolution of applicable circumstance listed above and others that may apply:

POTENTIAL COST SAVINGS	EXPENSES
<ul style="list-style-type: none"> • Eliminate the costs associated with the mainframe and associated equipment • Eliminate software license fees • Eliminate expenses for staff that are required to operate the mainframe • Recover data center floor space • Possible reduction in Disaster Recovery expenses • Possible sale of the mainframe and equipment to the surplus market 	<ul style="list-style-type: none"> • Cost of migrating applications to the vendor mainframe • Vendor’s monthly charges for mainframe operations and support • Disaster Recovery fees • Possible early termination fees • As-needed fees for vendor technical support • Depending on the contract arrangement, cost of telecommunications lines

A MESA outsourcing arrangement can be a great solution for a company that is moving to a server-based computing environment. Just be sure that you do your homework about available vendors offering this service, and be prepared to make some concessions to the way you operate today in order to maximize the benefits of this strategy.