Corporate mergers & bankruptcies:

When Application Retirement becomes mandatory
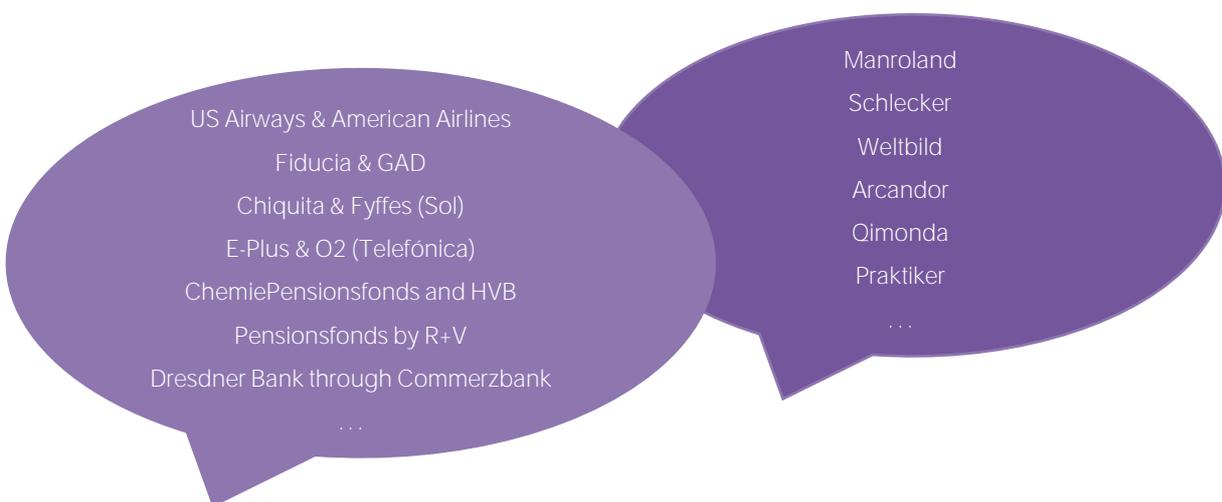
By Heike Johannes

In most companies, Application Retirement is considered to be a "nice to have" item: a new system is introduced, a team is formed for the migration of data from the legacy application and the project is closed after the new system has been commissioned. The legacy system remains unchanged, continues to operate and slowly falls into oblivion.

However, with corporate mergers and bankruptcies, Application Retirement is mandatory. Apart from the cost savings, the reason is the lack of know-how which makes the operation and data searches with the legacy system nearly impossible after a short time. A system is required here that makes the data accessible again even without expertise of the legacy system and satisfies the legal requirements.

Mergers & bankruptcies – is this already a standard item on today's agendas?

Mergers and bankruptcies increasingly shift into focus: According to Bloomberg, the volume of corporate acquisitions in the first quarter of 2014 amounted to around 580 billion Euros. This also includes bids that were published in the first quarter but were then rejected.

Accordingly, the list of mergers of the past years – and the list of bankruptcies – is very diverse:

US Airways & American Airlines
Fiducia & GAD
Chiquita & Fyffes (Sol)
E-Plus & O2 (Telefónica)
ChemiePensionsfonds and HVB
Pensionsfonds by R+V
Dresdner Bank through Commerzbank
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Manroland
Schlecker
Weltbild
Arcandor
Qimonda
Praktiker
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Fusions / Mergers & Acquisitions (excerpt)

Corporate insolvencies (excerpt)

Numerous decisions and activities are necessary in all these cases. A step that is often overlooked is the backup of the IT systems and the associated company know-how. Especially in case of bankruptcies, knowledge of the systems and their handling often diminishes quickly with the departing of employees. If the IT work structure was then strictly hierarchical, there is a risk that individual program modules are no longer operable or their data can no longer be interpreted.

One item therefore belongs on the agenda for all mergers and bankruptcies: Application Retirement or also the retirement of the entire previous infrastructure. The objective of both projects must be the long-term secured access to the corporate memory.

Application Retirement – Definition of term

Wikipedia defines Application Retirement as follows (as of 31/08/2014):
Application retirement, also called application decommissioning and application sunsetting, is the practice of shutting down redundant or obsolete business applications while retaining access to the historical data. Legacy applications are often maintained solely to provide infrequent or sporadic access to the data within the application database for regulatory or business purposes. With organizations spending upwards of 75% of their application software budgets on ongoing maintenance, application retirement can deliver significant cost savings.

The act of application retirement usually involves relocating data from the legacy application database to another data repository or archive store that can be accessed independently using industry standard reporting or business intelligence tools. Application retirement allows IT departments within companies to reduce the software, hardware and resources required to manage legacy data.

Application Retirement thus describes the shut-down of legacy systems with the effect that the data can continue to be used by means of standard reporting tools. The clear objective hereby is the reduction of software, hardware and resources in order to manage the legacy data, in summary: lowering costs.

Application Retirement – Procedure

Relocating the legacy data to a different storage medium is not sufficient in itself because being able to obtain real information from data requires subject logic contained in the original application and in the respective knowledge of the employees. As soon as these facts are no longer given and no data description exists at all, standard reporting tools, too, will be unable to meet the challenge of retrieving information from the data. Implementing the reports required later during the application retirement project and thereby offsetting the know-how loss by the departure of employees is therefore mandatory especially in the area of mergers and bankruptcies.

Suitable tools hereby feature the following components:

- Archiving the data from the legacy system including audit functions:
  - Who has started archiving?
  - When was archiving started and how long did it take?
  - How many data records were archived in the process?
- Automatic generation of a data description based on the table names, column names and types
- Definition of retention periods
- User authorization system
- Facility of technical description of the legacy system (e.g. purpose and period of application)
- Facility of implementing dynamic reports

Implementation of reports during the project often meets resistance articulated by statements such as "We cannot yet estimate today which data will be needed in the future". Archiving the data in a manner that facilitates future expansion of the reports is therefore important. Preserving data in rigid formats such as PDF of CSV files does therefore not meet the objective. According to the principles of data access and verifiability of digital documents (GDPdU) in the communication of the German Federal Ministry of Finance (BMF) of 16/07/2001, using pdf files does notsuffice: "Exclusive archiving in formats that cannot be processed electronically (e.g. pdf files) is not sufficient."

Further rules that must also be followed with application retirement apply especially in the area of bookkeeping. They have been summarized as follows by the German Federal Ministry of Finance (BMF), Report IV A 4 on 22/01/2009 in the document "Questions and answers on data access rights of the finance department":

With data conversion for the purpose of ensuring the electronic analysis capability by the new system purchased, the rules regarding data access have priority. This requires, however, that only the format of the data was implemented, but no data content was changed. This requirement shall also be observed and implemented during the Application Retirement project.

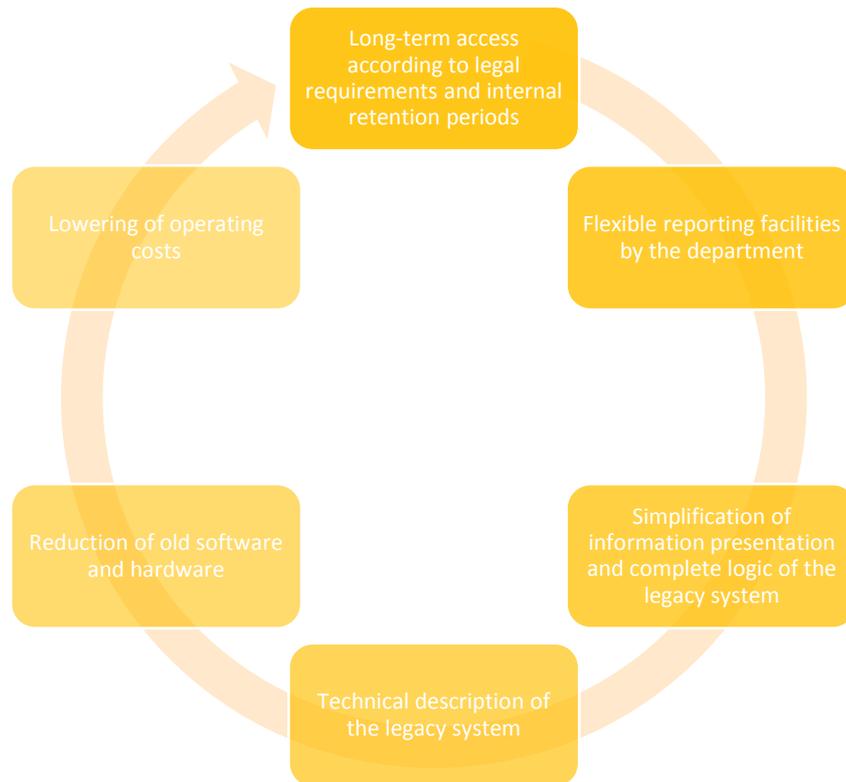The following items can therefore be listed for Application Retirement:

Figure 1: Goals of Application Retirement

Application Retirement for mergers

Merging two usually entirely different IT landscapes represents a major challenge to the persons involved. Each redundant system is usually examined to determine which system of the two companies will be integrated into the other system. The necessary migration processes not only take time but also require optimal planning. To reduce the time factor, many only migrate the active data. However, costs for licenses, personnel, support and service continue to be incurred for the legacy system so created, and the know-how for its handling decreases continually.
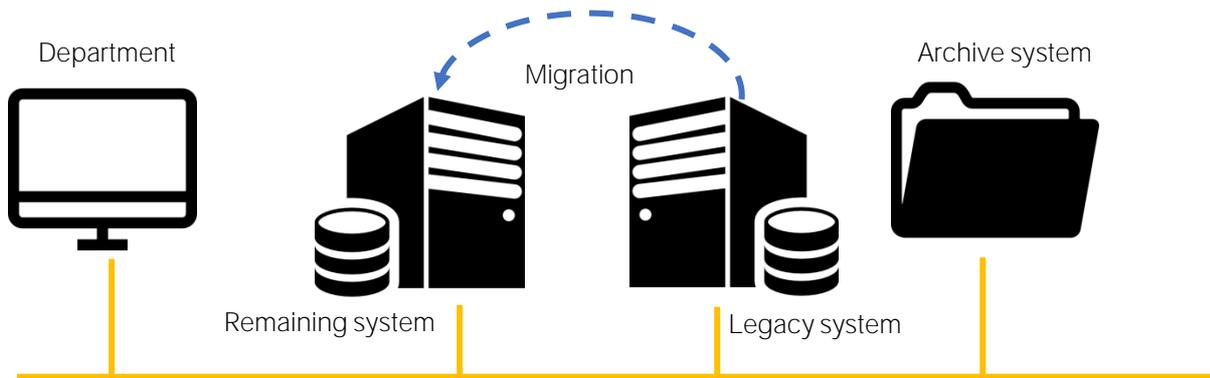
Figure 2: Application Retirement for mergers

Application Retirement right after the migration project has proven to be very beneficial: the personnel know the data structure and the information that continues to be relevant. The experience of migration can therefore by utilized while ensuring at the same time that all necessary information is available according to the periods of retention.

Application Retirement for bankruptcies

As soon as it becomes apparent that a company is heading towards bankruptcy, the feasibility of continuing the business operation should be examined. If not feasible or if individual company segments are to be broken up and sold, application retirement or shut-down of the complete infrastructure should be considered.

It is best to determine at this time which systems contain data relevant for principles of proper data processing-supported bookkeeping (GoBS) or principles for data access and verifiability of digital documents (GDPdU) and which periods or retention apply to them. It must then be considered which other systems need to be included as well for archiving from other sets of rules and legislations. Possible reasons may be the product liability of manufacturing businesses. Allowing for the processing periods, a schedule should then be prepared as to when which application can be used as read-only system. If long-term postings are expected, an interim migration of the data into a system corresponding to the business operation during the bankruptcy proceedings – and not during the earlier operative operation – is conceivable. Again, Application Retirement is the right approach here if only the active data is transferred to the bookkeeping system and all data is archived.

Figure 3: IT architecture with Application Retirement or shut-down of the IT infrastructure in the framework of bankruptcy proceedings

Conclusion

With mergers and bankruptcies, Application Retirement is more than just a "nice to have" item – it is mandatory. This is the only means of ensuring long-term data access, ensuring that legal and industry-specific requirements are met. Concrete recommended actions can only be derived from the respective situation in case of mergers and bankruptcies. This article therefore highlighted why Application Retirement is principally required and how this issue can be addressed. Relying on the expertise of persons who have already gathered experience in this field and are therefore able to give the right advice is therefore recommended in each individual case.

Any questions? Just contact us!

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Our hint:

Learn now about our solution for Application Retirement by watching our video:
https://www.youtube.com/watch?v=IC8EqU_Ba34&feature=youtu.be

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