



Planning for ERP Consolidation: Making a Smooth Transition and Convincing Users

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Bill Swanton

The Bottom Line: Approach ERP consolidation as a new ERP implementation: Take the lessons learned in earlier attempts to define a single set of business processes that will work globally for your corporation and pay attention to change management to make sure that the new processes stick

ERP consolidation requires achieving global best practices

As discussed in the *AMR Research Report* "Justifying ERP Instance Consolidation Requires a Strategic Goal," March 2003, consolidation is not an IT cost savings project. The payoff is in better business performance because of streamlined business processes and organizations. This ups the ante, requiring a riskier project to determine global best practices and get all business units to buy into them. These projects have become even more critical because they figure prominently in Sarbanes-Oxley compliance efforts. Be sure to engage consulting help to facilitate changing the business processes and extensive training and communication to make the project a success.

Skimping on change management, training, and communication will cause an ERP consolidation project to fail

Many companies have approached ERP consolidation as a technical exercise in combining databases. However, AMR Research has found that successful consolidation projects require fundamental business change.

The successful project requires allocating sufficient resources for change management, training, and communication to avoid the two biggest fears we found in our survey:

- Resistance and rejection to the changes by the organization
- Disruption of the business as it tries to absorb the change

Under spending on change management risks schedule and budget

When on a tight budget, companies are often tempted to cut corners on the nontechnical portions of a project. This is not worthwhile, as lack of governance and insufficient facilitation to agree on best business practices caused some of the companies we interviewed to overspend their project budget and timeline by as much as 40%.

Overall, companies correlate project success to adequate attention to change management, training, and communication. Even when the original budget fell short, successful companies reallocated or requested more money to these areas as the project began to roll out.

Training was such a key element that many companies built it into all phases of the project plan:

- One company was investing in computer-based training, so it started training development early in the project. If the training team hit a roadblock, it was an early warning of a problem elsewhere, such as trouble reaching consensus on a business process.
- To ensure that training was actually done, another company made successful certification (via the online training system) of employees part of each manager's bonus objectives.

Table 1: Sample project cost breakdown

Category	Range of Budget Allocation	Typical Budget Allocation	Notes
Software	2%-10%	5%	Higher when converting some sites from another vendor or adding modules
Outside Services	10%-40%	25%	Most organizations targeting about 20%
Hardware and Networking Upgrades	2%-10%	5%	Was not a significant factor in most projects, especially when consolidating to an existing site already running the selected ERP
Project Staff	30%-40%	40%	Dedicated project staff
Other Internal Costs	10%-15%	10%	Business personnel part of extended team
Training and Communication	5%-20%	15%	Repeatedly cited as critical to success (combination of internal and external resources)

Note: Actual schedules, budgets, and use of consultants varied widely by project. Project costs ranged from \$7M to \$12M per \$1B of company revenue.

Source: AMR Research, 2003

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Much of the work is planning

Looking at Table 2, one is struck that many of these projects used 30% to 50% of their timeline and 20% to 30% of their budget for planning and blueprinting. Agreeing on best practices is the hard part. The user and consulting base is more skilled on the mechanics of implementing the systems than they were a few years ago, which has reduced these costs. Also, most companies we spoke to knew a change management horror story and were paying careful attention to the organizational issues that get in the way of benefits realization.

Schedules for projects ranged from one to three years, though most had the first part of the consolidation operational within 18 to 24 months. Larger organizations tended to have more sequential regional or business unit rollouts, lengthening overall project time. Interestingly, the shortest projects (12 months) were those driven by a management determination to quickly restructure their companies.

Table 2: Sample project metrics by phase

Phase	Common Tasks	Schedule (months)	Percentage of Budget	External Consultants/Share of Team (%)	Notes
Scope and Plan	Consolidation Strategy (including Sequencing of Events) Governance Model Organizational Structure Target Business Processes Benefits Estimation Communication Plan	3-8 months	5%-10%	15%-35%	Limiting factor in how quickly this can get done is politics. Lower end is when CEO is project champion.
Blueprint	Common Chart of Accounts Master Data Management Process Prioritized List of Global Business Process (Consolidation Order, Benefits)	3-9 months	15%-25%	15%-35%	Depends on complexity of organization. Must examine needs of all business units to build appropriate global template, even if some features won't be used immediately. Significant blocks of time required from business users in all units (3-4 weeks) to get consensus on global processes.
Realization	Technical Environment Upgrade Training Development Implement Global Template Data Migration Tools Benefits Measurement Tools Stress Testing	3-12 months	40%-50%	15%-35%	Time frame and costs depend on need for infrastructure and software upgrades as part of project. Building a regression and stress testing environment was an important goal for most organizations, to reduce risk and future upgrade costs.
First Go-Live	Site Plan Localization Data Cleansing Data Migration Training Cut Over	3-6 months	15%-25%	10%-30%	Major consultant role in this phase was to advise on localization requirements. Most hands on work was done by internal project team to ensure buy in by organization.
Additional Go-Live	same as above	1-3 months	5%-10% of original project	0%-20%	Time frames usually dictated by period closing windows, with work timed to begin immediately after a period closing and complete before end of quarter rush.

Note: Actual schedules, budgets, and use of consultants varied widely by project.

Sources: AMR Research, 2003

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Benefits come from visibility and global best practices

As described in "Justifying ERP Instance Consolidation Requires a Strategic Goal," the source of benefits from a

consolidation project is adopting best practices uniformly around the globe. Once done, global units can be managed more consistently and the enhanced visibility of day-to-day operations allows savings from coordinating operations, such as deploying inventory. Table 3 summarizes the potential benefits.

We found no significant differences across vertical industries or by where the firm was headquartered. The low-hanging fruit was always in shared services for common financial processes, such as accounts payable. A better indicator was the history of the company—if it had grown by acquisition and the business units shared customers or suppliers, the return from streamlining the organization and using software to share resources was greater. ERP consolidation is, however, an inherently global process, and various global and local issues must be resolved as part of the blueprinting process. Examples of these issues are listed in Table 4.

Over the period we did the research, firms operating in the United States increasingly cited compliance with the Sarbanes-Oxley Act (SOA) as a major benefit. As companies document their internal procedures leading up to their audits, they are finding financial practices widely between business units and, in the words of one auditor, “process holes big enough to drive a truck through.” Another recent study, *The AMR Research Report “Prioritizing IT Investments for Sarbanes-Oxley Compliance,”* June 2003, found 65% of the companies interviewed considering consolidation as part of their SOA strategy.



Optimum use of systems integrator or consultant is 20% to 25% of project team in senior or one-time roles

User companies learned during the Y2K and dot-com eras that it is easy to overuse consultants. Common complaints include the following:

- Paying high rates for untrained “kids off the school bus”
- Ill-defined projects resulting in unexpected delays and scope creep
- Not understanding how the system was put together, leaving permanent staff unable to maintain the system once the consultant left

As illustrated in Figure 1, the project staffs are somewhat smaller than the original implementations, but more heavily staffed with internal personnel. Companies are positioning themselves to take over ongoing maintenance and upgrade of the systems with primarily internal resources.

Consultants and system integrators are called in for independent and expert advice or for one-time tasks:

- At the high end, consulting partners, project managers, and senior functional consultants with industry experience are relied on as a neutral third party to facilitate agreement on the global business practices. They bring knowledge of industry best practices and can referee the organizational politics.
- The internal staff handles most of the realization work, thereby enabling them to understand how to maintain the system. To support and transfer knowledge to the staff, companies are engaging senior consultants with industry experience and specialized knowledge of the ERP package, especially new or recently enhanced modules.
- The consultant or SI may also be given one-time tasks, such as data conversion or preliminary upgrades. These tasks are often sent offshore to lower cost development centers.
- Global consultants also assist companies in implementing localizations for specific regions or countries, tapping local personnel familiar with the regulations.

Consulting and system integrators are the largest external costs in the project. Companies control these expenses by doing the following:

- Limiting consultants' roles to the areas where they add the most value (see Figure 1)
- Implementing a strict governance and issue escalation process (see "Justifying ERP Instance Consolidation Requires a Strategic Goal") to avoid leaving the meter running while trying to make a decision

While many of the ERP vendors are pitching change management services, their role in these projects is typically more specialized. Many users insisted on some vendor involvement in the team to ensure back channel access to technical support if needed. As described below, the vendors also provide specialized tools for benefits measurement and data conversion.



The change management capabilities of major consulting companies are described in the *AMR Research Report* "How Consultant's Change Management Expertise Helped 10 Enterprise Software Implementations Succeed," May 2003.

Each consulting company, though, has its own special expertise:

- **Atos Origin** has tackled some difficult multinational governance challenges in its projects.
- **TSC** uses an iterative workshop approach to get agreement on the potential benefits in a project and define the goals for changing business processes.
- **BearingPoint** uses specialized performance measurement techniques (described below).
- **IBM Business Consulting Services** determines the opportunity using a four-week "Fast Track Diagnostic" process. It also uses its financial muscle and outsourcing business to smooth hardware requirements and the financing requirements of projects for the client.
- **Crowe-Chizek** leverages its past experience as a reseller when consolidating companies where **SSA BPCS** is widely deployed.
- Small boutiques tend to focus on specific vendors and, because of their size, are often brought in as part of the project team for their specialized consolidation skills at large enterprises. In the **Oracle E-Business Suite** world, examples include **Solution Beacon**, **O2Works**, and **BOSS Corporation**.

Master data enables, but measurement ensures benefits

A single system can't provide visibility and coordination benefits unless everyone is using the same terms or, in this case, the same master data for materials, customers, and suppliers. Even then, it is easy for local groups to fall back into old habits, requiring constant measurement of business processes across organizations.

Establish master data management group and process

Every company consolidating found it had to invent from scratch a process to keep master data consistent and nonredundant across the consolidated businesses. Especially contentious is customer master information, as it usually determines who gets sales credit.

Best practices included the following:

- Designating a central group to manage the data and policies
- Delegating responsibility for various data items based on function, business unit, and geography
- Implementing some workflow technology to ensure updates were made in a timely manner and did not slow down sales or new product introductions

- Cleaning up data on the old system prior to merging a unit into the common instance; this includes both consistency and tagging records to be converted with enough information to be connected to the appropriate master data in the consolidated system

Benefits baseline and measurement

The business case will identify the promised areas of savings or other business benefit. Given the skeptical view many business people have of IT projects since the dot-com era, more companies are opting to include specific work to measure and report the benefits over the course of the project.

You have many options:

- Consultants have been offering these services for years and have collected deep, industry-specific benchmarking information. Because the benchmarking group may support many vendors, they may not have vendor-specific tools on the shelf.
- The software vendors are concentrating on pre-built measurement tools, often layered on their business intelligence suites. These tools are evolving and may allow you to measure (and publicize) the value early in the go-live period, rather than wait to do a one-time, post-implementation study.

Startup KPI measurement alerts team to problem areas before business is disrupted

Business process changes are often not adopted readily and thoroughly by all organizations. Building some diagnostic capability as part of the project lets the project team monitor daily or even hourly whether basic productivity measurements are behaving as expected, typically short-term degradation followed by steady improvement. BearingPoint, for example, measures detailed KPIs for each business process by organization to catch problems before they affect revenue or customer service. Examples range from the number of unreleased material to number of accounts payable checks voided. Once all the organizations are up and running, many of these measurements can be turned off, with perhaps one-third becoming part of a permanent Enterprise Performance Management (EPM) system.

ERP vendors have specialized services, but not full change management

Your ERP vendor has been building its service organization to boost revenue in these tough times. Their strength is technical services that rely on proprietary internal knowledge of their systems.

- Merging databases while ensuring customer, vendor, and material IDs are not redundant, and database integrity is preserved. The vendors do not share these tools and will tell you (with some accuracy) that outsiders risk corrupting the internal database. Since most business benefits derive from leveraging common data across sites and business units, these services are valuable and costly, often \$400K or more. **SAP** has gone as far as to create a special Systems Landscape Optimization organization specializing in these projects.
- Desperate to prove the value of their software, vendors are now offering services to develop the business case for a project (sometimes for free), establish baseline metrics for current practices, and instrument the system to provide metrics on performance. A part-time overlay team of a few individuals is required, and costs may be reduced if you agree to participate in a reference program. J.D. Edwards has invested heavily here, with its Value Assessment during the sales cycle and a dedicated Value Delivery organization for implementation.

Closing comments

Woven throughout these two Reports on ERP consolidation is the concept of changing business processes to realize the benefits. It doesn't stop when the consolidation project is over. Most companies we spoke to included the low-hanging fruit in their initial consolidation project. They expect to shift to small projects that make incremental improvements in other processes, using the common system to roll those changes out quickly throughout the organization.

Instead of completely disbanding the team, companies should keep their governance process for consolidation in place and create a competency center for the ERP system. It can be the focal point for a continuous improvement methodology, such as Six Sigma, to identify improvement targets and implement technology assisted business process improvements.