

# Leveraging Opportunities from an ERP Implementation to Drive Enterprise Transformation

Over the Past Five Years, Companies Have Spent More Than €20 Billion with Major ERP Software Companies

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## Introduction

Over the past five years, companies have spent more than €20 billion with major ERP software companies, plus two to eight times more with implementation suppliers for ERP solutions. While there have been more than a few highly publicized projects that failed to meet expectations, most organizations persisted with their implementations to capture meaningful benefits surrounding overall cost savings, stronger decision support (better, more timely information), and business-enabling process improvements.

Embarking on and successfully completing a major ERP implementation are milestones in any company's history. Many find their ERP implementations to be cathartic events, causing them to re-examine various facets of their organizational and business models. The modern ERP system removes constraints within an enterprise and builds new skills and capabilities that create new options for tapping organizational and operational improvements.

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Enabling transformation opportunities arising from ERP initiatives requires that leaders take intentional actions up front in the design phase to ensure ingredients will be present to support transformation, drive impact, and manage risks.

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The best companies recognize that a successful implementation positions an enterprise not only to capture the benefits originally envisioned but also to pursue a next level of opportunities by leveraging the by-products of ERP-related initiatives to support programs to transform their organizations.

However, enabling transformation opportunities that arise from ERP initiatives requires that leaders take intentional actions in the up-front planning efforts to ensure that the ingredients will be present to enable and support business transformation. This business delivery perspective needs to shape the technology capabilities and service deployment strategy – in the design phase – to drive fundamental impact and manage risks across the enterprise.

This paper discusses:

- Two primary levers in transformational initiatives
- Potential magnitude of the transformational impact
- Actions that an organization's leadership should take to chart a course toward transforming an enterprise

## Insights and Capabilities Arising from an ERP Implementation

The nature of a major ERP implementation program causes an organization to examine itself in great detail. Once an enterprise is well into such a program, it possesses a number of insights and capabilities that were much less well-formed compared to its pre-ERP days. These include, for example:

- Key members of the organization gain deep, detailed understanding of the enterprise's processes. They understand not only the work that gets done but also how it gets done. They define processes to a fine granularity, positioning the enterprise to identify new improvement opportunities.
- Leaders also gain a deeper understanding of the interfaces between the processes – where and how processes connect. This clarity of how the business model works from end to end underscores key performance levers and where decision-making and good judgment really make a difference.
- Leaders begin to realize that they can decouple process from people, enabling a re-examination of the organization's activities and how they can be restructured to drive business advantage and performance.
- The organization possesses new capabilities that it developed to support the ERP implementation, including:
  - Process analysis
  - Broad-based training and knowledge-transfer capabilities
  - Project-management skills
  - Coordination of large cross-functional teams

These insights and capabilities position an organization to surface fundamental improvement opportunities, lock them in for the long term, and leverage them to drive transformational changes. Opportunities emerging as a side effect of ERP implementation can fundamentally change an enterprise's cost structure and business model. The nature of these opportunities range from significant changes in organizational structure, to supply chain reconfigurations, to dramatic operational improvements.

Equipped with new capabilities that change how people and processes relate, companies can fundamentally challenge where they do/can perform many business support activities such as information technology, finance and accounting, human resources, and procurement. New capabilities also enable challenging whether to own or "rent" the resources for such processes. In addition, new capabilities enable many enterprises to launch major initiatives to restructure their back-office activities, creating shared services organizations that sometimes evolve into new business market-facing entities.

These actions often produce compelling financial benefits. Moreover, they frequently extend beyond the economics to drive fundamental improvements in organizational effectiveness and operational performance.

### Assessing Location Opportunities

Location is a major cost driver for many activities, particularly for people-intensive back-office and administrative areas. As organizations complete the implementation of major ERP systems, they find the need for close proximity no longer drives many decisions on where to locate the performance of specific tasks. The modern ERP system resolves communications, control, and information roadblocks that used to require workers to be near the inputs to their processes as well as the users of their process output.

Unshackled from communications, control, and information constraints, business executives can assess just how essential it is for support activities to be performed close to the business. Many conclude that proximity is no longer an issue.

Armed with location flexibility, decision-makers can tap locations where their processes can be capably performed at costs well below historic levels and by equal or greater talent. Whether it is moving activities from New York to Omaha or from London to Budapest, an enterprise can typically reduce total costs by 30 percent or more, even after adding added resources for potentially higher management and coordination effort.

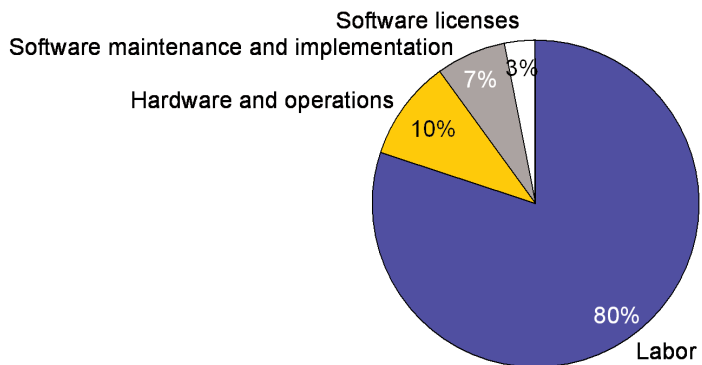
For example, several years ago, direct labor costs in the Western European capitals were three to four times higher than in the major cities in Eastern Europe (**Exhibit 1**). While costs have increased in all of these locations, the relative disparities remain to this date.

**EXHIBIT 1**

Back-office costs

Source: Everest Research Institute

**Cost of back-office processes**  
Percent



## Exploring the Choice to “Rent” or Own

An enterprise emerging from its ERP implementation often finds that it can contemplate different options for performing activities than were possible with the old systems; in doing so, they can dramatically improve the realization of payback from the ERP solution.

For example, perhaps for the first time, an organization can “rent” the services of a third-party supplier to perform business processes without having to cede the critical control points – a situation modern ERP solutions enable. In fact, many companies discover that their ability to meet compliance requirements and manage risks is enhanced by sourcing certain activities from third-party suppliers, as ERP solutions provide clear process integrity, visibility, and auditability far beyond the previous environment.

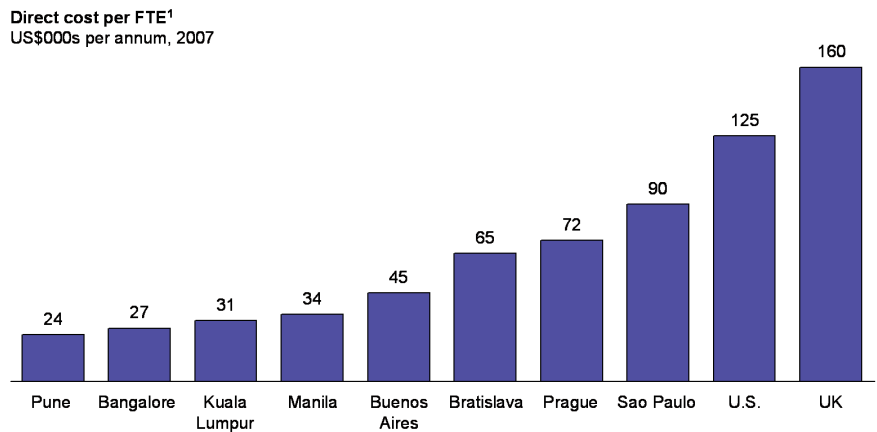
With barriers surrounding control and compliance issues minimized by their new ERP systems, forward-thinking companies re-examine the criteria that determines which activity capabilities they should own and which they can “rent.”

The rapid growth in outsourcing for finance and accounting (F&A) activities illustrates an area where many enterprises are moving to capture the combined value of focused, specialty supplier solutions and delivery from low-cost locations (**Exhibits 2 and 3**).

### EXHIBIT 2

#### Comparative location costs

Source: Everest Research Institute



<sup>1</sup> Indicative fully loaded costs

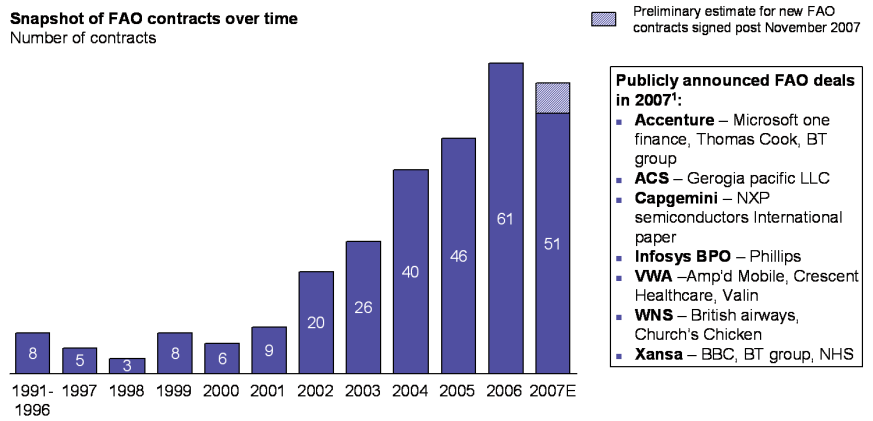
These assessments drive decisions to leaner organizations focused sharply on a company’s core activities that clearly make a difference in the market and in bottom-line performance.

**EXHIBIT 3**

Finance and Accounting  
Outsourcing (FAO) market  
growth

Source: Everest Research Institute

**Snapshot of FAO contracts over time**  
Number of contracts



- Publicly announced FAO deals in 2007<sup>1</sup>:**
- **Accenture** – Microsoft one finance, Thomas Cook, BT group
  - **ACS** – Georgia pacific LLC
  - **Capgemini** – NXP semiconductors International paper
  - **Infosys BPO** – Phillips
  - **VWA** – Amp'd Mobile, Crescent Healthcare, Valin
  - **WNS** – British airways, Church's Chicken
  - **Xansa** – BBC, BT group, NHS

**Of the 283 contracts signed to date, over 66% were signed in or after 2004**

<sup>1</sup> The list of publicly announced FAO contracts is illustrative and not exhaustive

### Pursuing Transformation

Once an ERP implementation is complete, companies led by executives who perceive the opportunities presented by the new capabilities and relaxed constraints often pursue a transformation program. They frequently follow a similar course, as follows:

1. Identify the strategic levers enabled by the new ERP solution
2. Determine priorities for capturing significant benefits
3. Organize to support and drive major change

#### 1. Identify strategic levers

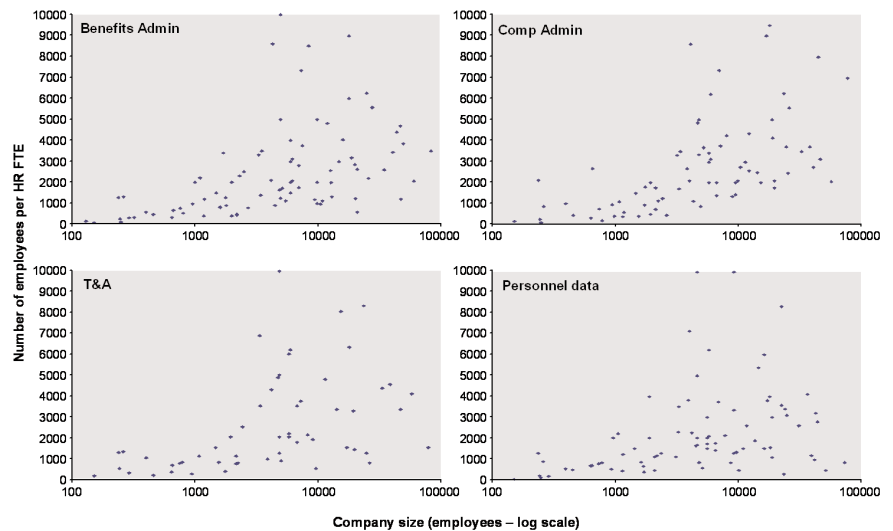
Numerous benefits emerge from a modern ERP solution that provide leverage for pursuing broader business impact. Clear examples of the benefits that companies have captured include:

- **Cost savings** – Companies not only captured direct-cost savings surrounding maintaining an integrated business information platform but also drove administrative and operational changes that enabled substantial productivity improvements.
- **Risk reduction** – Companies gained visibility and control methods throughout the enterprise, which support stronger compliance (at lower cost) and processes with less variability.
- **Quality improvements** – Companies gained more consistent and reliable data informs better and quicker business decisions.

**EXHIBIT 4**

Process scale benefits exist but are not captured by all organizations

Source: Major ERP company U.S. user group, 2006-2007



Best-practice scenarios most often begin with a leader's clear vision of how a company can take advantage of these levers. They design their technology implementation up front to accomplish those goals including making the due diligence surrounding the software platform focus on the system's functionality to support the specific kinds of initiatives likely to emerge during the transformation program.

The ERP solution must be consistent with a vision of shared services or third-party service delivery. Moreover, executives need to recognize the kind of skills and capabilities they will require to be successful, and they must be ready and willing to retain consulting firms to plug any gaps that may exist.

They must also establish an organization construct where the service delivery organization (internal or third-party) can collaborate effectively with the technology platform provider to ensure that both the existing capability needed now and those features that will enable greater benefits in future transformation initiatives are likely to be available when needed.

Important outcomes of implementing a modern ERP solution illustrate benefits from three specific activities required in successful transformation programs:

- Capturing more uniform data
- Standardizing core processes
- Simplifying complex regulatory compliance activities

**Capturing more uniform data.** The ERP implementation results in taking advantage of uniform data that constitute the basis on which the ERP system operates. A company likely expends great effort to harmonize the chart of accounts, product codes, and bill of materials to satisfy stakeholders such as different business and support units, channel partners, suppliers, product codes and bills of materials. This harmonization positions the organization to achieve advantages stemming from:

- Greater data visibility allows easier consolidation and comparison of financial and operational performance across different products and markets to establish benchmarks and identify best practices to adopt across the enterprise.
- Greater visibility about volumes purchased by single customers enables stronger credit management and “fine tuning” of pricing.
- More standardized products, bills of materials, and consolidation of volumes purchased allows more informed negotiations with suppliers and often leads to inventory reductions.

**Standardizing core processes.** The ERP implementation also results in more standard processes, which enable support (and some front line) processes to capture important advantages:

- Streamlines support processes and consolidates the organizations that prior to the ERP system were often fragmented between different business units and territories, as the company assesses rent-versus-own decisions.
- Improves service levels and quality such as accelerating the financial consolidation process, achieving a “fast closing” that supports better control, and more effective comparisons of performance.

Some executives also take advantage of what many perceive to be the “rigidity” of ERP systems. Modern ERP solutions embed certain logic that drives the steps that must be performed in a business process. These firmly established processes are based on best-practice scenarios that also protect the integrity of the process – a useful benefit for far-flung operations of global enterprises that ensures that certain standards are constantly respected.

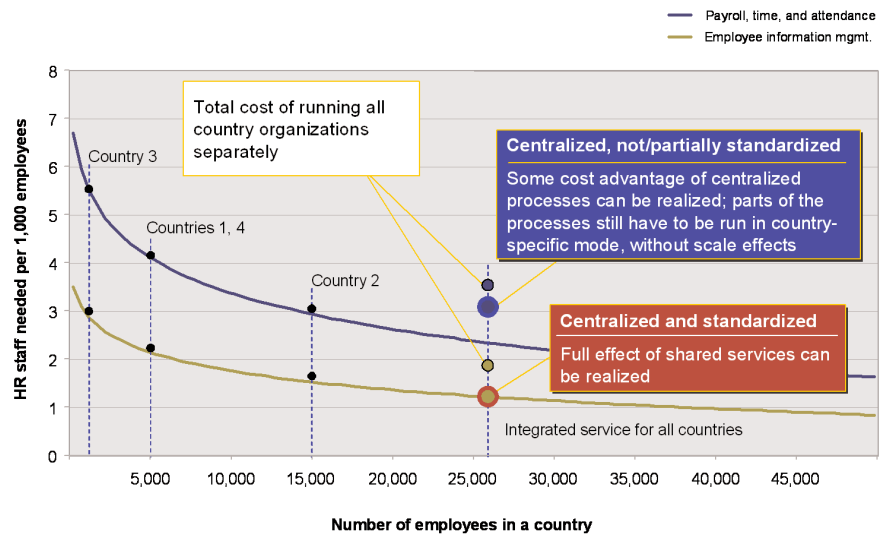
A related benefit is an increase in formalization and control of internal processes; the ERP implementation requires clearly defined activities in each process step and establishes unambiguous roles and responsibilities (**Exhibit 5**). This formalization makes it much easier to increase the control of the processes and compare process cost and performance with alternative approaches (including both location and rent versus own).



**EXHIBIT 5**

Enhancing productivity via transformation

Source: Major ERP company



In some cases, an ERP implementation removes barriers to growth strategies that have prevented expansion into new markets. Modern ERP systems are localized for most of the countries in the world and support business expansion without having to implement new systems. The global template for processes and procedures enables efficient flow of talent throughout the organization worldwide.

**Simplifying complex regulatory compliance.** An important advantage arising from a modern ERP solution is simplification of the compliance assessment for regulations such as the Sarbanes-Oxley Act in the United States and similar requirements in other countries.

For example, many ERP solutions address maintaining the appropriate segregation of duties, which is a requirement under most regulations related to an enterprise’s financial accounting. The users’ authorizations to perform certain tasks in the system often determine the tasks and the insights that users have. With a modern ERP system, it is often straightforward to verify the existence of user profiles with inappropriate authorizations (e.g., in a purchasing process, requesting purchase and approving the purchase by the same person should be prohibited). The ERP solution helps identify the existence of conflicts and maintain compliance.

These examples illustrate a wide range of opportunities for an enterprise. They enable an enterprise’s leaders to consider new organization constructs, decouple people from assets, and align processes with the optimal selection of talent, location, flexibility, quality, and timeliness based on the underlying business needs. In some cases, entirely new business models emerge as organizations reinvent the way they can go to market.

## 2. Determine priorities

The transformational program begins to take shape as the organization's leadership identifies the mix of potential strategic opportunities and begins to lay out the roadmap for change. A common thread in the most impactful situations is that leadership takes explicit steps at the outset to design the results. This design is completed from a business perspective, not solely from a technology view. Only by ensuring the effort has a business vantage point can leaders set the course that will yield substantial and sustainable results. In most cases, executives drive their priorities based on potential impact and risk.

The potential impact of an opportunity (e.g., reorganize/relocate a business process, reengineer an in-situ process, decide to rent the resources to execute/transform a process) most often involves a reduction in cost to perform the activities as well as an improvement in the service and/or quality levels.

The second element in determining priorities involves assessing risk. There are a range of approaches for identifying and estimating the potential impact and likelihood of risk factors. Some companies take a very rigorous, analytical approach to quantify risks while others perform a more subjective assessment. The most successful approaches – regardless of formality – quickly focus on the things the organization should do to manage and mitigate the risks. An active risk management component as part of the overall transformation program pays substantial dividends, as the companies that invest in such activities avoid many costly and time-consuming issues.

## 3. Organize for change

Companies seeking to successfully transform their enterprises must take proactive steps to organize for upcoming organizational changes. The leadership team recognizes that transformation will mean more than communications or a training program. It will include a set of activities and outcomes that enable the organization to effectively embrace and efficiently operate in a specific future state. It is essential that a change-management strategy and dedicated team be put in place in the early phases of any transformational project.

To be truly successful, individuals must own the change as it relates to them and must develop the capabilities to perform not only the activities as defined by the project team but also the activities defined by the newly formed organization and new relationships. When a change-management plan is embedded in the early phases of the initiative and the company effectively manages the transformation, the company can achieve organizational objectives while minimizing the risks, errors, and productivity declines that are inherent when changes are introduced.

## Conclusion

Driving transformation successfully requires business insight, unusual commitment, and strong leadership. Capturing transformation opportunities arising as side effects from a major ERP implementation requires intentional shaping of a program to do so.

The most successful leaders carefully consider the critical levers for positive change, the prioritization and sequencing with which these levers must be pulled, and the comprehensive plan to support the changes contemplated. They actively work to guide all of the stakeholders (internal staff, consultants assisting with implementation tasks, third-party or internal service delivery organizations, and technology suppliers) to keep the objectives in clear focus and drive consistent, forward-looking progress.

Major change is challenging, particularly following the rigors of a major ERP implementation; but the payoff from taking advantage of the location and rent versus own choices enabled by the new platform can be compelling.

## About Everest Group

Everest Group ([www.everestgrp.com](http://www.everestgrp.com)) is a global consulting firm that assists corporations in developing and implementing leading-edge sourcing strategies including captive, outsourced, and shared services approaches. Everest helps companies create strategies and sourcing relationships that deliver total value – improving performance and results while managing the risks in such initiatives.

Since 1991, we have completed 300+ engagements, advising clients on complex sourcing issues in more than 30 key business processes worldwide. Our experience spans numerous Fortune 1000 clients in banking, insurance, retail, healthcare, telecom, media and entertainment, and hospitality sectors, among others.

Our breadth and depth of experience enables us to deliver expert analysis and strategic results. Our flexible, collaborative approach analyzes the specifics of each sourcing challenge. Throughout the process, we encourage collaboration between buyers and suppliers to spark creativity and lay the groundwork for long-term outsourcing success. The result is a solution that recognizes the strengths, weaknesses, and strategic objectives of both parties.

Everest Group is headquartered in Dallas, Texas, and has offices in Toronto, New York, London, Amsterdam, New Delhi, Melbourne, and Sydney.

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