Driving Business Value
A closer look at ERP consolidations and upgrades
“Meaningful business decisions that help accomplish business goals and growth objectives may call for reporting metrics that are not in current business requirements. Forward-thinking business and IT organizations should explore how quickly they can adapt their systems to meet changing market conditions and new demands.”

—Ken Gabriel, Global Leader, ERP Advisory Services, KPMG
In today’s rapidly evolving business world, remaining competitive on a global scale is no easy feat. While the benefits of globalization are clear—significant growth potential, access to new markets, lower labor costs, and greater diversification potential—doing business across the globe also presents its fair share of complex challenges. That’s why many companies are increasingly viewing projects involving Enterprise Resource Planning (ERP) as a key enabler for business transformation. ERP provides a foundation to remain competitive, create value, improve performance, centralize processes, increase transparency, and provide the flexibility needed to keep pace with changing business goals and advancing technology within a global marketplace. Essentially, the new buzz generating around ERP is being driven by the ability of such initiatives to be used as a catalyst to transform business as usual and provide such benefits across the whole organization, not to mention the long-term savings impact to the bottom line. The caveat? Consolidating or upgrading an ERP system to reap short- and long-term cost savings requires spending first to save later. This may be difficult during turbulent times, when every dollar spent is being microscopically scrutinized. But that’s where the potential business benefits of ERP to be gained through a consolidation or upgrade—if clearly communicated and understood—may outweigh anxiety over up-front costs. For example, in addition to cost savings and organizational agility, an ERP consolidation or upgrade has the potential to also reduce enterprise risk as well as simplify processes. Such benefits are substantial in scope as more companies are managing business processes and IT operations across multiple business units and locations due to globalization and increased merger and acquisition activity. Not to mention the increasing pressures they face trying to meet global and local regulatory compliance requirements and mitigate risks across the enterprise. Newer versions of ERP systems and service-oriented architecture provide more functionality than ever before. This provides greater opportunity to streamline and consolidate operations. Overall, it provides the ability to help the business run leaner while simultaneously allowing for improved and more streamlined technology integration. This will prove extremely beneficial in current times, as more IT organizations begin to feel the strain from anticipated demands for more detailed, timely information as a result of an expected rise in government oversight as well as a heightened regulatory environment. In the current economic environment, where many organizations are reducing their IT costs, there is a delicate balance to comply with the regulations and maintain a reasonable cost structure. With the reductions in IT staff, many companies have seen an increase in the number of control deficiencies in the past year. Furthermore, as a result of turbulent times, IT organizations need to work now with the business to anticipate information needs that may accompany stimulus funds. The anticipated demand for accountability and the need for timely current market information on distressed assets may require reporting metrics that are not in the current business requirements. Organizations should explore how quickly they can adapt their systems to meet these new demands. Hence, a new sense of opportunity is surrounding ERP because of its ability to reduce both the costs and the complexity of operating in a global growth market.
Making the decision to move forward

The decision to consolidate, upgrade—or both—often depends on a variety of factors that include a company’s growth strategy and its existing IT systems strategies. Companies can increase efficiencies by replacing manual processes that require human effort with enabling technologies, and can take advantage of shared service programs to reap business benefits. On the IT front, consolidations and upgrades provide an ideal opportunity for companies to evaluate their existing application portfolio, governance, and cost recovery models and eliminate unneeded and obsolete package modifications, dependencies on third parties, custom-developed extensions, and, in some cases, entire legacy systems in order to simplify their environments and lower costs of ownership while benefiting from increased functionality. In addition, consolidating or upgrading can help facilitate the practical implementation of a common language across the organization providing better aligned data for more effective decision making. It can also create a common pool of skills to support the infrastructure.

If executed properly, a well-implemented and appropriate ERP consolidation or upgrade could result in an increase in business information transparency; more informed decision making; better customer service; a more cost-effective supply chain; improved internal processes, and, ultimately, a quantifiable return on investment.

Key business drivers of an ERP consolidation or upgrade
- Reduce costs
- Streamline processes
- Improve operational efficiency
- Integrate functions
- Eliminate redundancies
- Manage risk and compliance
- Maintain application support compliance
- Increase visibility across the enterprise
- Take advantage of improved application functionality
- Address global requirements and standards (such as IFRS)
Business transformation. IT implementation.

Achieving optimal results from an ERP consolidation or upgrade requires a strategic vision and a well-planned approach that combine business and IT perspectives and sponsorship. That calls for business executives across the company to join with the CIO and team to be actively involved in the communications, planning, and strategy process to fully understand the intent, size, scope, costs, and timing of these initiatives. It also creates a synergy that enhances the ability to identify potential opportunities and challenges that may be involved in a system consolidation or upgrade.

Careful planning and development of a road map with business and IT involvement can help ease cost constraints by taking inventory of existing technology and business application portfolios. This can also help to gauge their business value and make any necessary adjustments as well as help drive future applications investments. By analyzing core business processes—their performance, complexity, cost, utilization, and contribution to the business—an organization can be in a better position to eliminate ineffective areas and optimize the most valuable ones. This can also help to reduce costs and control strategies to drive systems optimization.
Creating value in addition to preserving it should be the strategic focus of an ERP consolidation or upgrade. This requires looking at the ERP landscape from a performance point of view rather than just a risk, compliance, and controls point of view. To do so involves determining how this performance-based mindset impacts the organization in terms of IT landscape, current processes, governance, and the company’s business and IT strategy.

It is also important to recognize that creating value from ERP extends far beyond the actual IT implementation phase and requires a commitment to the long-term business strategy. Organizational alignment, improvement of business processes, and driving performance are critical components following the initial IT implementation phase, and they need to be reassessed over time. The new long-term strategy should focus on whether the ERP implementation growth curve (see figure below) is completed and how rapid gains are used to prime IT and business to execute the strategy on a tactical and operational level. A common risk is that the organization will remain at the level of rapid gains, will be satisfied with the result, and will forget that there is also a long-term strategy. Commitment to the strategy by key stakeholders is essential for completing the growth curve and creating competitive value.

In an effort to create value and stay true to the long-term business strategy, organizations should ask themselves the following three questions:

1. Which market developments should be taken into account in terms of the long-term strategy?
2. How do these developments translate into requirements within the three layers of business model, process, and IT?
3. Having defined the requirements, how do these requirements impact the business model, processes, and IT?

As shown in the figure above, organizations should recognize that base implementation of ERP functionality is only the first part of the implementation life cycle. Improving business performance and reassessing the ERP landscape to gain a competitive edge and create new value, as opposed to just preserving value, will help generate an ERP system that is performance-based and supports the strategic business case over the long term.

Implementation life cycle

Source: KPMG LLP, 2009
Success factors

Since ERP implementations can often disruptively impact business functions, and because businesses seek the benefits of a consolidation or upgrade as soon as possible, timing is always of the essence. The duration and success of implementations, however, will depend on a variety of factors, some of which include:

• The degree of commitment and collaboration of executive and business management with IT
• The quality of planning and alignment with strategic objectives
• The level of customization versus out-of-the-box implementation
• The maturity of an organization and their experience with ERP
• The technical or functional purpose of an upgrade
• Organizational change management and training
• Whether expectations are realistic, and the extent to which there is a true focus on business processes
• The effectiveness of governance and milestone tracking

While the technology matters, the key to a successful ERP strategy is built around the business needs and the goals to be accomplished. By understanding business objectives and what is to be accomplished with an ERP strategy, companies are more likely to realize the business benefits of ERP and will likely be in a better position to establish key performance measures, set baselines and targets for those measures, and track performance after the system is up and running.

The main objective of ERP implementations is to optimize the IT environment supporting the business processes in such a way that the strategic objectives can be optimally achieved. Accordingly, the focus is aimed at realizing business benefits with the use of an ERP system as a vehicle.

—KPMG report, “ERP & Performance”
February 2009
A look at our clients’ results

**Client situation #1:**
A global energy provider seeks to simplify operations
After upgrading its core operations and safety management processes, a global energy provider set out to streamline its operations and simplify its ERP strategy and architecture.

**Assignment:** KPMG was asked to analyze the integration architecture and provide input as to how the architecture should be modified to provide more effective business support.

**Approach:** The KPMG team was able to define more transparent data strategies and clarified data flows and data ownership issues for the client. The team’s assessment enabled the client to reduce the number of major interface points from 10 major areas and 100+ two-way interfaces to a radically simpler architecture with six major interface points comprising 40+ interfaces, mostly unidirectional.

**Results:** KPMG’s assistance in streamlining the company’s ERP approach enabled the company to create a cost structure that saved an estimated $5 million annually.

**Client situation #2:**
A global oil company optimizes ERP implementation value
As part of its business transformation initiative, a global oil company was undergoing a major ERP implementation. The company wanted to evaluate the cost and benefit impact of carving out a portion of the business from the most recent implementation schedule.

**Assignment:** KPMG was asked to evaluate different options relating to the ERP implementation to determine if the original business case that supported the initiative was still applicable and whether the decision to move forward was still viable.

**Approach:** By facilitating a logical, business case-driven approach to the analysis, KPMG was able to help the company identify and document the key points of information needed to make an informed decision. KPMG documented the financial model, as well as key risks and benefits associated with each of the options being considered by the company.

**Results:** Based on the insight provided from KPMG, the company’s leadership was well informed and able to make a fact-based decision on how best to move forward with the implementation of the ERP system for the portion of business in question. The company found it more cost effective to maintain the existing IT schedule while reaping the business benefit of having a common global platform to support implementation of new global business processes. The cost savings derived from the workflow automation to standardize transactions and reduce exceptions alone was enough to outweigh the IT implementation costs.

**Client situation #3:**
A global telecom company realizes benefits of an ERP upgrade
A global telecommunications equipment provider wanted to upgrade its ERP platform and needed to define an upgrade strategy to support its business case. It needed to identify an appropriate IT application architecture to satisfy its business goals in order to proceed.
Assignment: KPMG was asked to develop a high-level implementation plan, a systems integrator selection framework, and a cost framework for establishing budgetary cost estimates for the company.

Approach: The KPMG team worked with the company’s business executives and key stakeholders to document business benefits. They developed a conceptual enterprise architecture road map and a real-time system implementation assessment. They also determined project risk management for implementation of a PeopleSoft upgrade, Oracle Business Intelligence, and Oracle Fusion Middleware Phase I. Based upon its research and analysis, KPMG was able to provide the company with an evaluation that identified the complexity of several major elements impacting the upgrade project.

Results: KPMG was able to help the company shape the project plan, organizational model, and estimate based upon the well-defined understanding and evaluation of complexity. The company was able to clearly track whether the business benefits were being achieved and thus was better able to clearly demonstrate the realized benefits. Overall, this helped the company achieve the business goal of reducing costs by 5 percent.
How KPMG can help

KPMG can help organizations seize the current ERP opportunity to streamline, standardize, and simplify business processes; reduce and control costs; and create a more nimble organization that more easily adapts to change. By helping to develop an effective ERP environment with a clear strategy and road map, KPMG can help an organization address its short- and long-term business needs.

An objective approach

KPMG professionals can provide the deep knowledge, objectivity, understanding, and experience that can mean the difference between seeing the broad issues and focusing solely on immediate problems. We approach issues from the view of a business “integrator,” not just as a systems integrator. Through project life cycle guidance and a host of support services, KPMG can help an organization navigate each stage of an ERP consolidation or upgrade, recommending approaches that can enhance the value to your business.

As a vendor-neutral adviser, we help organizations through objective recommendations. Unlike hardware and software vendors, systems integrators, and IT and Business Process Outsourcing (BPO) providers, this advice is impartial and geared to the specific needs of our client. Working hand in hand with members of senior management, we help as they look to make the right choices, at the right time, and at the right cost.

What’s more, we possess the capabilities and qualities to help deliver on ERP commitments, by bringing:

- Experienced and trustworthy advisers capable of helping organizations align IT with business objectives
- Vendor neutrality and professional skepticism
- Knowledgeable business advisory, IT performance, and tax and accounting professionals that can help provide the analytic rigor and fact-based business cases to meet the requirements of the CFO
- A balanced approach to addressing growth and risk
- Deep financial, regulatory, business and IT controls, and industry knowledge
- Experience serving market-leading clients of all sizes, including nearly 75 percent of the Fortune 1000
- A full range of service offerings

KPMG’s Advisory Services can help your organization manage costs, improve the speed and quality of service, and increase the alignment between business and IT.

Support you can rely on

KPMG’s Advisory team is a trusted adviser to the boards of some of the world’s largest multinational organizations. KPMG is a global network of professional firms providing audit, tax, and advisory services. We operate in 144 countries and have 137,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative. Each KPMG firm is a legally distinct and separate entity and describes itself as such.
Contact us

For more information on how KPMG can assist you in optimizing the business value of your organization’s ERP consolidation or upgrade, contact:

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