BearingPoint
Management
&Technology
Consultants

Value Based ERP

Microsoft Dynamics ERP as the Foundation for Sustainable Process Optimisation

BearingPoint. Management & Technology Consultants

Contents

Illustrations

Supported by an Integrated ERP[1] System Efficient and Unified Business Processes are Able to Create Competitive Advantage

The process industry in Western Europe is characterised by high product quality. At the same time, the financial crisis, the current recession, high personnel and raw material costs as well as other factors have not been without consequences for the industrial locations.

The production in Western Europe – compared with many other regions, in particular the Eastern European emerging markets – is considerably more cost intensive. Combined with the current economic situation, the pressure to operate even more effectively and efficiently has increased. Significant potential for increasing efficiency and effectiveness can be discovered within business and IT processes.

The secret of success for medium sized companies are flexible business processes adapted to the individual requirements. It is however, no secret that these processes are often supported by sub-optimal IT systems and the supposedly important flexibility often leads to inefficient and cost-intensive processes. Intransparence and multiple fragmentation in the information flow contribute the rest to the entire situation, which can disadvantage a company relative to the competition.

The following are reasons for a company to tackle these processes now:

- Establishing competitive advantage (for example by quicker reactions to the changing market situation, better customer care etc.)
- Increasing effectiveness (for example by shorter throughput times, reduction of error ratio, better communication etc.)
- Increasing quality (both of processes and products)
- Reducing costs (for example by consolidation of IT systems)
- Continuous improvement and transparence due to the measurability of processes

1 ERP – Enterprise Resource Planning

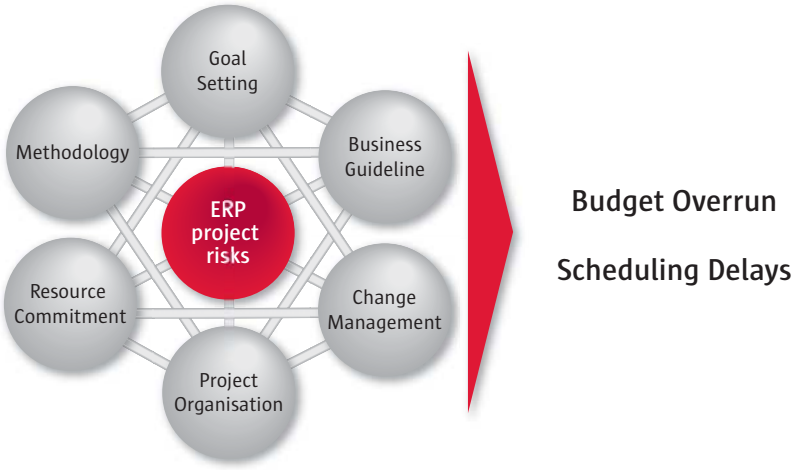
BearingPoint. Management & Technology Consultants

Investment in an ERP System is a Special Risk for Every Company

From experience, for many medium-sized companies, it is an enormous challenge to set up, coordinate and carry out process optimisation and the transformation of the processes in a unified ERP system.

Six main aspects (see diagram 1) have potentially high risks in a company-wide process and data harmonisation together with the aligned ERP implementation. An underesti-mated or unrecognised risk leads to project delays and cost overruns. In the following these risks are described in more detail.

Figure 1: ERP project risks



1. Lack of connection between IT and business goals

It is self-evident that process harmonisation is accompanied with economic goals, which further advance the company. In reality these goals are often, however, only followed half-heartedly. Process and data harmonisation are the basis for a transparent represen-tation of company performance and profitability. A rational performance evaluation via so-called Key Performance Indicators (KPIs) means, that additional effort in the form of an analysis of the as-is situation, the definition of attainable performance goals as well as the resulting definition of corresponding measures is first required. This effort is often consciously dispensed with. Instead the return on investment is justified with savings in the area of IT (infrastructure, maintenance, licenses etc.) or the planned project is defined as being strategically important. Absent economic goals, in particular from a business point of view, reduce the pressure to succeed and the readiness in the specialist

departments to support the project. The consequences are that process and data harmonisation are pursued and driven by the IT department. The resulting argumentation for the business units of the reasons for following the harmonised processes is, therefore, not convincing, because the business units are not the choreographers of this work. The latent danger remains that the process and data harmonisation aspired will not be transformed in reality. Instead of this the newly introduced ERP system is adapted according to the as-is situation; the expected benefits are not realised and in the end the only savings are in the area of IT.

2. Lack of or inadequate specifications or guidelines from the business – Business Guidelines

The implementation of a company-wide, unified process and data harmonisation requires management decisions, which affect the organisation, perception of roles and business culture. In an organisation which is organised according to divisions an institution is often missing, that can reach company-wide decisions. The most frequently observed case is that, at most, in the areas of finance and controlling there are company-wide, valid guidelines and unified processes such as e.g. monthly closing. All other business areas consist generally of their own "sub-optimal" processes, which are consistent with their individual requirements.

In practice process harmonisation is promoted by IT. The consequences are mostly vaguely formulated process requirements, which allow a high degree of freedom in the individual development in the different business areas and related companies. The harmonisation and transparence of the processes in this case is generally not achieved.

For this reason it is recommended to define a separate organisation, the so-called Business Process Competence Center (BPCC). This organisation has the company-wide competence to define and unify processes and data. It is assigned the responsibility of demanding the required company objectives and expectations. According to the size and complexity of the company, the BPCC can either be defined as an independent organisation or as a virtual organisation with clear roles and responsibilities for the employees involved. Theoretically this happens before an ERP implementation project is started. The common practice is, however, mostly the exact opposite of this.

3. Underestimated relevance of "Change Management"

To define process and business requirements in the sense of the entire company is one thing, to implement these sustainably in all relevant business areas is quite another. If this responsibility - as is common practice - is assigned to the so-called key users, who accompany the project from the business perspective, the danger is considerable, that the expected company objectives are not fulfilled. In fact, the identification and the resulting determination of the required changes is not possible, because the key users often do not have the required mandate and enforcement capabilities within the organisation. Often the key users concentrate on their immediate project responsibilities, which do not allow them any more free time for change management activities.

In some cases change management is recognised early on as a required project responsibility. However, the general understanding and competence for this is not always available within the company. Often, change management is reduced to a mere communication and training activity, far removed from ensuring the required, sustainable adaptation to the unified business processes.

The end user gets to know the ERP solution as a new tool with different, helpful (or less helpful) functionalities but the user does not know what the company wishes to achieve with it. The individual employee's expectations and the company's expectations diverge.

A missing or unavailable change management strategy can lead to massive constraints in the daily business after the implementation. This can lead to the company being exposed to an incalculable risk.

4. Inefficient project organisation

Companies, which wish to carry out an ERP program encompassing more than one site or country, face the challenge of creating a project organisation, which on the one hand can be centrally managed, but on the other does not neglect to integrate local specialists.

If an ERP template, which reflects the future processes and data structure of the company, is developed via a central team, this team is predestined to carry out the local implementation in the countries. A sequential implementation is, however, only possible to a limited extent as the implementation could take years. The burden on the project members is in this case enormous and travel costs exceed the given budget. In addition the danger remains that the local organisation considers that in their opinion they have been inadequately involved.

If mainly local implementation teams are used the travel costs are reduced; but the model often fails due to inadequate knowledge transfer. The management of such a virtual project organisation is time-consuming and inefficient. In addition if the budget responsibility rests with the local organisation, it can no longer be expected that the centrally defined business processes will be implemented. In fact the process model diverges considerably and the desired effects are not realised.

5. High labor utilisation

In the first instance process and data harmonisation involves the intensive involvement of employees. In addition to the project team, which is generally reasonably well planned and staffed, the ERP project involves further personnel from different business areas. The personnel involvement within the project is considered a part-time job for these employees and the effort required completely underestimated. This results in neglect of daily work or expensive delays in the project. This risk is compensated for mostly after the project has already been significantly affected by it. Acting out of necessity the damage is compensated for by involving (additional) cost-intensive external resources.

6. Lack of experience and poorly conceived project methodology

Nowadays there is experience with ERP implementations in all industrial branches. In particular medium-sized companies do not substantially profit from this however. Owing to the size of the organisation the project management methodology is often considered to be overloaded and too complicated. A project is then inadequately planned, the project progress only followed at a superficial level and the risks evaluated half-heartedly. As a consequence resource and time bottlenecks are first recognised, when they appear and the quality of the project results is not regularly checked and controlled. All too often these conditions lead to project delays and unexpected costs, which, particularly in medium-sized companies, can significantly negatively affect the balance sheet.

Measures for reducing risks

There is not a prescribed recipe for reducing risks, as the initial situation is different in each individual company. The risks can, however, be reduced, if they are recognised early and taken seriously by the responsible management. Fundamentally the installation of a continuous risk management in the project organisation is recommended. In doing this it is important that these projects are accompanied by a corresponding project management methodology, so that the risks' recognised can be escalated and appropriate measures introduced. If the project risks are under control, then the basis for a process optimisation in the sense of "value based ERP" is achieved.

Approach for Achieving Measurable Value Enhancement for Your Company – Value Based ERP

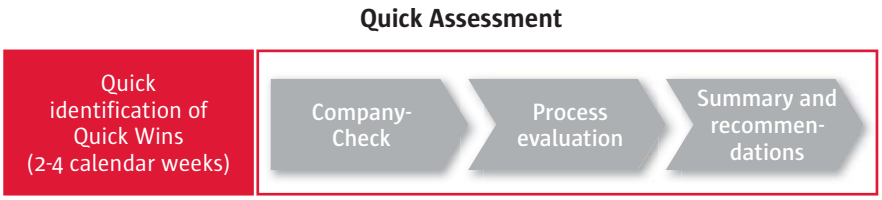
Optimised processes based on the company strategy are achieved on the one hand via a structured approach and on the other hand by the evaluation of the performance of the business processes supported by sustainable performance metrics.

For this a methodology is required, by which

- the identification,
- the design,
- the optimisation and improvement as well as
- the management

of business processes in combination with the implementation of an integrated ERP system can be realised. Our approach for this considers both these points as well as the rapid generation of so-called „Quick Wins" (see figure 2) and therefore differs considerably from the approach used by other consulting companies. We can show you specific potential benefits, even before the processes are implemented or the decision for the implementation has been taken.

Figure 2: Approach Quick Assessment



In the following you can find a short description of how, with the above approach, you can identify specific potential benefits for your company, within two to four weeks. In this way, you can consider if a holistic process optimisation makes sense for your company:

Company-Check

Initially we complete a so-called Company-Check relating to your organisation, services and technology. With the help of the Company-Check we evaluate your company based on targeted questions and benchmark performance indicators compared with competitors relating to process management and maturity of the organisation (see figure 3).

Figure 3: Content of the Company-Check

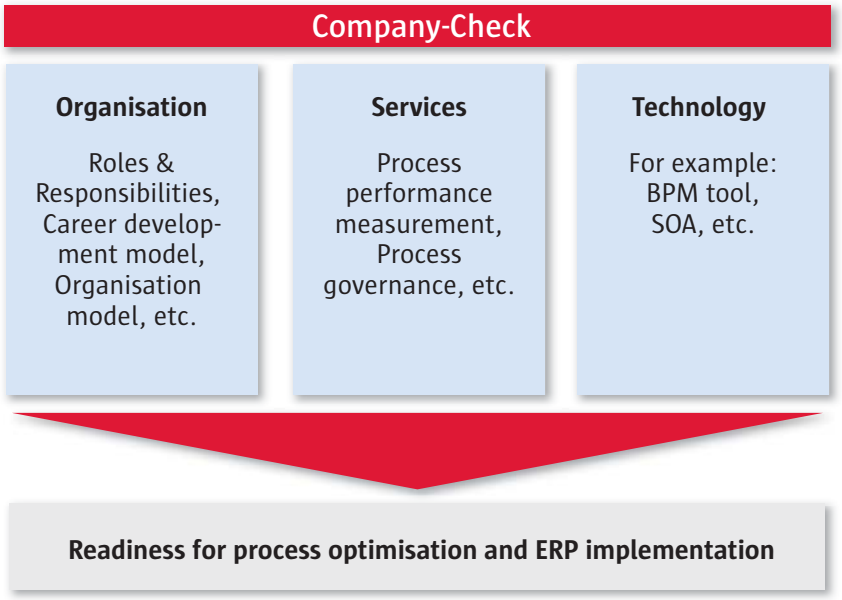


Figure 4 shows an example of the subject areas relating to the organisation of the process optimisation.

Figure 4: Extract of questions relating to process optimisation

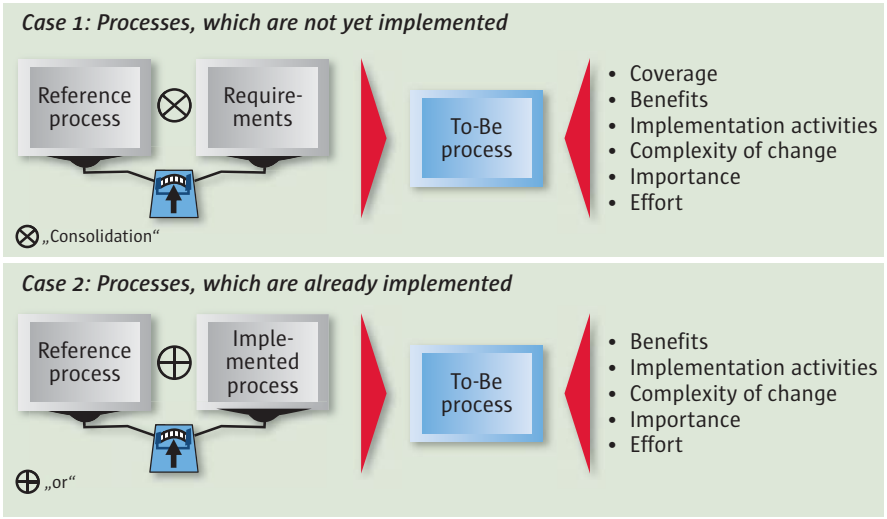
Company-Check	Impact Mechanisms
Do you evaluate and optimise your processes based only on a subjective point of view or also on an objective analysis?	Different evaluation angles on the processes due to • Qualitative process analysis (e.g. via interviews with person responsible for process) • Quantitative process analysis (e.g. on transaction level)
Does your company use company-wide, unified performance indicators to analyse business processes? Are your processes designed for the market and the requirements of your customers?	• Structures and processes designed for the customer are shaped to be value-creating for the company • Processes are made measurable via company-wide unified performance indicators (KPIs)
Are your processes optimised over all areas or only within individual functional areas?	• Transparent, effective and efficient processes are developed and documented across functional areas • Dependencies between the processes are considered for optimal collaboration
Are process changes in your company accompanied by clear guidelines or are there no guidelines so that the process complexity is continually increasing?	• Coordinated, aligned processes allow rapid reactions to changing market conditions and customer requirements • Process changes are documented and are made transparent by clearly regulated activities and decision-making

Process evaluation

In a second step we evaluate your company processes relating to the potential for process optimisation compared with branch specific “leading practice”-reference processes (see figure 5).

The “leading practice” business process model used is linked to Microsoft Dynamics ERP, so that a quick realisation of the optimised business processes is subsequently possible.

Figure 5: Approach for process evaluation



In our approach we differentiate between on the one hand processes implemented already via an ERP system and on the other hand business processes which are still to be implemented.

Processes are evaluated according to the criteria

- coverage of the reference processes,
- use for the company in the sense of increase of efficiency and performance optimisation,
- activities, which must be carried out during the implementation,
- complexity of the process changes and,
- the importance of the processes measured according to the value added and the effort of implementation.

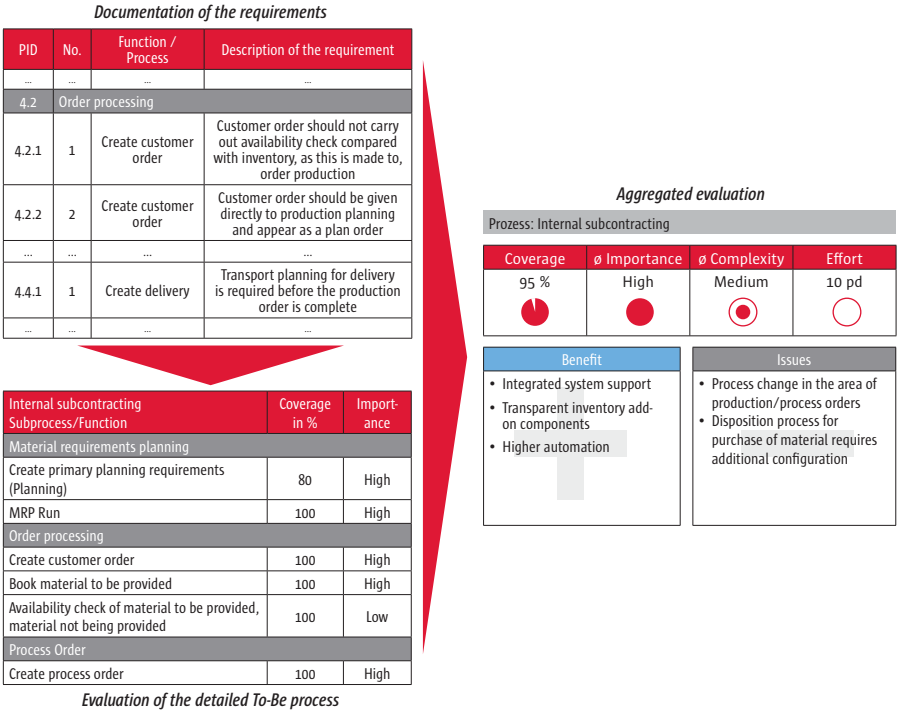
After the Quick Assessment we can give you a structured results' document (see figure 6).

This document includes, for example:

- savings and improvement potential,
- cost/benefit calculation (ROI),
- implementation time planning,
- activity catalogue,
- risk evaluation,
- change management-requirements

and enables you to reach informed decisions relating to the planned investment.

Figure 6: Result document for process evaluation and assessment (example)

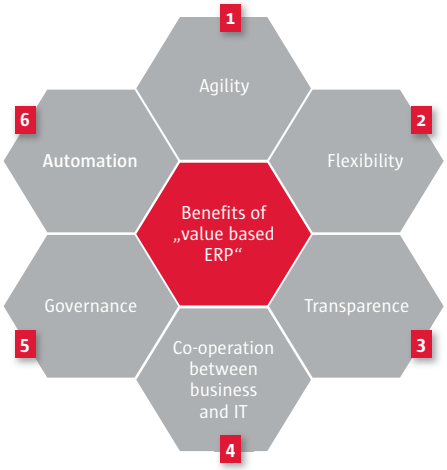


Using this procedure a rapid benefits' identification via process improvements in the „problem processes" is enabled in parallel with the establishment of a responsible organisation unit (BPCC). A consequent implementation, with a branch specific solution based upon Microsoft Dynamics ERP, enables a sustainable increase in your company's performance, which we have summarised under the term ,,value based ERP".

Benefits of "Value Based ERP"

Companies which concentrate on value-adding processes and activities and which continually optimise these achieve a number of measurable advantages due to their efforts (see figure 7).

Figure 7: Benefits of "value based ERP"



1. **Agility**
   Quicker solutions to problems, shorter time for development, quicker turnaround
2. **Flexibility**
   Decisions relating to business process requirements and optimisation are reached more rapidly
3. **Transparence**
   Transparence as well as the general understanding relating to business processes and their sub-processes is increased
4. **Co-operation between business and IT**
   Adjustment of and participation in the business processes particularly between IT and management
5. **Governance**
   Assurance that the procedures and regulations are adhered to and that an overview of the activities and operating sequence is given
6. **Automation**
   Productivity increase as well as increase in customer satisfaction. Reduction of errors, maximum compliance

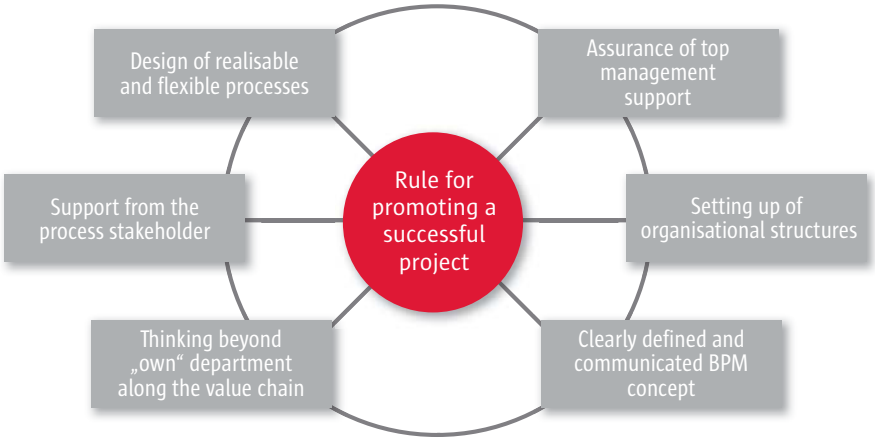
These advantages allow a company to be in a position where the efficiency and effectiveness of the processes can be increased, the speed of reaction to changing market conditions increase and transparence relating to the performance of the processes can be achieved. In this way with the procedure described and the process transparence achieved by doing this, an evaluation and therefore a goal-orientated process optimisation can take place. Within the framework of a holistic concept this requires that the required tools (guidelines, templates, BPM-tools, etc.) as well as the definition of suitable performance indicators (e.g. in the area of sales "time for a reliable delivery promise") with predetermined threshold values (e.g. less than 4 hours) are available. Using clearly defined process performance indicators the accomplishment of the goals' set can be made visible. A quite distinctive advantage of ,,value based ERP" is, not only that you optimise the processes in the correct manner, but also that you are able to identify the processes with the most potential for optimisation. Only if you allow both objective and subjective evaluation criteria to be included you are able to exploit fully the benefits' potential.

Basically "value based ERP" is based upon long-term benefits. The establishment of methods for the standardisation, evaluation and measurement of company processes has an influence on the manner of working together (company culture) in a way which should not be underestimated.

Critical Success Factors for "Value Based ERP"

As with every concept the success of "value based ERP" is also dependent upon different factors, which are represented in figure 8. As well as clear sponsorship via management, a holistic and sustainable concept is of primary importance. However, as "value based ERP" can only work if employees fully understand it and are living it, communication and change management are similarly of great importance.

Figure 8: Rules for a successful implementation of "value based ERP"



If the rules described above are adhered to and at the same time the described pre-requisites relating to organisation, governance and change management etc. are available, nothing should stand in the way of a successful "value based ERP" implementation and you can contribute to making sure that your ERP system is an investment in the future.

BearingPoint. Management & Technology Consultants

Our Proposal

If you

- want to include your business software activities in a beneficial concept and no longer want to see this as a mere cost factor,
- want to experience more about which benefits “value based ERP” can generate for your company – in particular in the current difficult economic environment – and how you can reduce the accompanying risks of an implementation,

then contact us.

We would be happy to show you how you can, within a few days, identify first process optimisation potential and how “value based ERP” can work specifically in your company, WITHOUT having to conduct large investments.

BearingPoint and YAVEON – Strong Partners

BearingPoint as a management and technology company advises leading large and medium-sized companies as well as large public establishments. With our cooperative and flexible approach we help our customers to achieve practical, sustainable and measurable results, to reach the correct strategic decisions and to be able to implement suitable solutions.

Contact:

Klaus Ort
Partner
Commercial Services
T: +49 69 13022 5878
M: +49 172 660 5339
E-Mail: klaus.ort@bearingpointconsulting.com

YAVEON is Microsoft Gold Certified Partner for Microsoft Dynamics ERP and specialized in the area of pharmaceuticals, chemicals and the food industry. YAVEON has long-standing experience of ERP implementations in medium-sized companies and offers, based on a standard reference model of business processes, tried and tested implementation methodology as well as ERP branch templates.

Contact:

Rainer Weissenberger
Vorstand
T: +49 931 46 555 0
M: +49 151 5061 1347
E-Mail: rweissenberger@yaveon.de

BearingPoint. Management & Technology Consultants

To get there. Together.

Helping our clients get sustainable, measurable results

BearingPoint is an independent management and technology consultancy. Owned and operated by its Partners throughout Europe, BearingPoint provides its clients with the best possible value in terms of tangible, measurable results by leveraging business and technology expertise. The company currently employs 3.250 people in 14 European countries and serves commercial, financial and public services clients.

BearingPoint offers its clients a seamless cross-border approach, strong focus on results, an entrepreneurial culture, profound industry and functional knowledge, as well as solutions customised to clients' specific needs. The firm ranks high in client satisfaction, has long-standing relationships with reputable organisations and is seen as a trusted adviser. BearingPoint has European roots, but operates with a global reach.

For more information, please visit: www.bearingpointconsulting.com

We are BearingPoint. Management & Technology Consultants

BearingPoint GmbH
Speicherstraße 1
60327 Frankfurt am Main – Germany

www.bearingpointconsulting.com