

10 Minutes on Realizing ERP Value*

What you need to know about emerging topics essential to your business. Brought to you by PricewaterhouseCoopers.

March 2009

How to make your systems work smarter for your business

Highlights

- Enterprise resource planning (ERP) is a set of business applications that coordinates the resources, information, and activities needed to complete core business processes.
- During an economic slowdown, ERP is a strategic tool to reduce costs, improve processes, better manage risk, and even pursue change.
- ERP-enabled business change can yield a significant return on investment even in a down economy.
- Reevaluate ERP's link to strategy, assess its ability to support multiple company futures, and understand which individuals play pivotal roles.

In the current economic environment, companies are under tremendous pressure to ensure continuity of key operations with fewer resources.

Some are reducing head count, others are shedding noncore businesses, and many are seeking new efficiencies from critical business operations.

Successfully meeting these priorities—now and in the future—depends in large measure upon the state of an organization's core systems. Not surprisingly, companies are taking a close, hard look at ERP.

ERP-enabled business change can unlock enormous opportunities. Not only right now—when endurance is the first order of the day—but also later, when the markets come roaring back.

Why ERP should be an executive priority now:

1. Enterprise applications sit at the core of a company's ability to find efficiencies and cut costs during the economic downturn. ERP is the basis for streamlining, standardizing, and automating processes that define the way organizations work.
2. Companies can also begin to tackle long-standing problems with ERP—such as technology complexity— as they pursue short-term cost savings.
3. It is possible to realize additional value from ERP systems quickly, without taxing scarce resources. Companies that get ERP right are poised to thrive in a dynamic and competitive environment.
4. ERP-related initiatives are not just the CIO's responsibility. They affect a company's business objectives and outcomes, which must be addressed collaboratively by the executive suite.

At a glance

Are your ERP capabilities undermining your business objectives...

- ERP is considered primarily from a functional or business unit perspective, rather than an enterprise point of view.
- Decision making related to ERP is driven more often by a software vendor's strategy or an application's constraints, rather than by business objectives.
- High levels of customization and complexity are inhibiting efficiency, limiting growth, increasing risks, and obscuring visibility into measures and results.
- Senior business leaders defer ERP strategy, including its contribution to business value, principally to the CIO.
- ERP project objectives and benchmarks are limited to specific business units or functions, instead of encompassing all the strategic benefits ERP can deliver.

...or are they delivering their full value?

- ERP systems streamline core business processes.
- Return on investment for ERP systems is real, measurable, and sustainable.
- Common ERP systems and processes create economies of scale and reduce the costs of mergers and acquisitions by significantly accelerating integration.
- ERP helps to meet financial reporting and regulatory requirements, such as the transition to IFRS.
- ERP supports several business objectives: accelerating speed to market, supporting growth and scalability, shortening time to revenue, and facilitating innovation and new business models.

Now is the time to revisit ERP

For many executives, ERP conjures images of multimillion-dollar investments, extended implementation schedules, and organization-wide changes that are often difficult to enact. Thankfully, it doesn't have to be this way. Undertaking select ERP projects can bring a range of benefits now and in the future. But why is this time—during an economic downturn—ideal to optimize, upgrade, or replace ERP systems?

When revenue opportunities decrease, internal capacity constraints ease and barriers to internal change decline. In companies where austerity programs are balanced with strategic positioning for the market's return, people rally around change.

For some, time to invest

Specialty chemicals company Ashland's new ERP system, for example, is helping to increase its operating liquidity. The company says the ERP system has improved demand forecasting and inventory control, contributing to a decline in working capital as a percentage of sales. Such improvements are critical for Ashland because it took on debt for a \$3-billion acquisition in November 2008.¹

For all, an opportunity to simplify

Enterprise technology like ERP often provides a way to manage in a downturn. In fact, goals such as conserving cash, cutting costs, reducing risk, or generating efficiencies are often inseparable from the need to address ERP-related change.

Consider these examples:

- Integrating new acquisitions and managing spin-offs can be done quickly only when software applications are standardized.
- Complying with a reduction in workforce can be easier to carry out when the company is not dependent upon manual processes—and vulnerable to the loss of key personnel.
- Simplifying and standardizing an organization's key business processes can often be achieved by reversing ERP customization within business units.

¹ Vincent Ryan, All Eyes are on Treasury, *CFO Magazine*, January 1, 2009.

A little effort goes a long way

Beneficial change does not always demand major investments. Companies choosing to forgo large-scale ERP projects at this time still face an attractive set of alternatives for unlocking ERP value.

Shoring up in-house capabilities

Many are pursuing initiatives that they can manage in-house with only low-to-modest resource commitments. These include:

- Consolidating disparate ERP platforms or doing away with multiple versions of the same ERP software
- Compelling some, if not all, business units to get rid of unnecessary customization
- Turning on features within current software that they have yet to take advantage of or upgrading to a new version that supports efficiencies
- Retiring nonconforming homegrown applications, particularly in instances where no value is created by differences in software

Opening up alternative routes

Nontraditional ways to purchase and access ERP capabilities include:

- Using ERP software hosted by the vendor or other third-party provider
- Subscribing to select ERP functionality through the software-as-a-service provisioning model
- Limiting the scope of ERP implementations by outsourcing key processes

Shifting priorities—strategically

Some companies are cutting costs in non-strategic areas while still financing their ERP initiatives. For example, retailer Lowe's has reduced its IT budget but is expanding its customer-facing ERP systems.²

Others are considering how ERP can facilitate crucial initiatives, such as the transition from GAAP to IFRS. Here, they are evaluating and anticipating both the process- and system-level ERP changes that will be needed to implement the financial reporting standard in their organizations.

² Thomas Hoffman, *Computerworld*, March 24, 2008.

Guiding principles for unlocking true ERP value

Companies that realize the greatest value from their systems consider how technology investments support broader strategic goals. They view each initiative as an opportunity to significantly improve business performance.

They consider: How can we be more responsive to customers? How do we make process changes more quickly? How can we better capture information to help us make smarter decisions?

With ERP projects, as with any technology initiative, two key principles can help companies deliver sustainable change.

1. Reduce unnecessary IT complexity

Many companies are coping with the overwhelming complexity created by decades of technology investments. The complex systems they have put in place are double-edged swords: critical for achieving business efficiency but often obscuring risk and hindering agility. The solution? Finding the right balance by determining where IT complexity adds value, then using ERP to hide that complexity behind standardized processes and interfaces that enable better transparency and decision making.³

Companies can also reduce IT complexity by upgrading from core ERP applications to business application suites that combine ERP with other functionality, such as customer relationship management. By moving to an integrated platform, the organization can support extended business processes while simplifying its systems landscape.

2. Minimize customization that doesn't add value

One key way to reduce technology complexity is by targeting a major culprit: IT customization. Companies should evaluate existing systems and identify where customized approaches are necessary because they contribute to business value. InterContinental Hotels Group, for example, has looked at where it makes sense to retain custom systems and where it can move to more standardized applications. Its reservation system, central to its core operations, remains a proprietary system, while less strategic applications like content management have been moved to a more standardized platform.⁴

³ PricewaterhouseCoopers, *Technology Forecast*, Summer 2008, <<http://www.pwc.com/techforecast>>.

⁴ Marshall Krantz, *An Open Secret*, *CFO Magazine*, January 1, 2009.

Five important questions to ask about your ERP strategy

Understanding the true picture of how the business is—and may be—impacted by economic volatility is presenting companies with an important opportunity to initiate positive change. Is your organization seizing the moment? Ask your business and technology managers, external advisers, and vendor representatives to answer five questions:

1. Does our technology strategy support multiple futures? Ensure that your company's ERP system incorporates the responsiveness needed to adapt to changing circumstances—for example, new business models, sourcing destinations, and product mixes. At the same time, look ahead to future priorities, such as the move to IFRS, and anticipate the role ERP will play. Both require a careful assessment and not a tactically driven response to short-term developments.

2. Given the upheavals in the economy, is our business case still on point? A pragmatic fact-based assessment will always allow time for a reality check. If you're in the process of implementing a major ERP initiative, reevaluate your planning assumptions and risk analysis results to check if they are still valid.

3. Is organizational knowledge buried in the existing systems? Before initiating major ERP change, dig deeper to see if the current system is obscuring valuable business insight. Consider specific actions to surface the intelligence you need.

4. What's the expected return on our investment? Insist on a business case with measurable outcomes. Determine precisely what results can be realistically achieved within specific timelines and budgets.

5. Do we have the right people? Know exactly which individuals represent your pivotal talent—those game-changing employees whose performance can make or break the project and the bottom line.⁵ Head count reductions can leave crucial holes in your IT organization or initiative. Likewise, understand who the pivotal people are in vendor or external adviser organizations.

⁵ PricewaterhouseCoopers, *10Minutes on Rethinking Pivotal Talent*, December 2008. <<http://www.pwc.com/10Minutes>>.

Upcoming 10Minutes topics

Linking risk and performance

Traditional, compliance-focused approaches to risk management have created dangerous blind spots for businesses—financially and operationally—threatening not only growth, but basic survival. This 10Minutes discusses how an integrated approach to managing risk and business performance can help companies systematically link risk and reward to avoid the pitfalls of operating in a volatile global economy.

How IFRS impacts US companies today

US financial reporting standards are undergoing broad changes due to the convergence of US GAAP with International Financial Reporting Standards—a process independent of IFRS adoption. Those changes, coupled with other factors, make it increasingly difficult for the United States to insulate itself from IFRS. 10Minutes discusses what companies can do to operate effectively in the evolving financial reporting landscape.

Recently published editions

As you help your company manage through the downturn and position itself better for the long term, consider our recently published 10Minutes editions on these topics:

- Rethinking pivotal talent
- Sustainable cost reduction
- Making divestitures successful
- Finance & accounting shared services
- Bolstering corporate liquidity
- US stimulus package

How PwC can help

To have a deeper discussion about ERP-enabled business change—and how you can realize ERP value—please contact:

Dennis Nally
US Chairman and Senior Partner
PricewaterhouseCoopers LLP
Phone: 646-471-7293
Email: dennis.nally@us.pwc.com

Juan Pujadas
US Advisory Leader and Managing Partner
PricewaterhouseCoopers LLP
Phone: 646-471-7782
Email: juan.pujadas@us.pwc.com

Paul Horowitz
Technology Leader
PricewaterhouseCoopers LLP
Phone: 646-471-2401
Email: paul.j.horowitz@us.pwc.com

Gerard Verweij
Oracle ERP Leader
Phone: 617-530-7015
Email: gerard.verweij@us.pwc.com

Jacqueline Olynyk
SAP ERP Leader
Phone: 646-471-8840
Email: jacqueline.olynyk@us.pwc.com

Tell us how you like 10Minutes and what topics you would like to hear more about. Just send an email to:
10Minutes@us.pwc.com

For more insights and forward-looking perspectives on current and emerging technologies, please visit:
www.pwc.com/techforecast



10% total recycled fiber

This publication is printed on Cougar recycled paper. It is a Forest Stewardship Council (FSC) certified stock using 10% post-consumer waste (PCW) fiber and manufactured in a way that supports the long-term health and sustainability of our forests.

The information contained in this document is provided 'as is', for general guidance on matters of interest only. PricewaterhouseCoopers is not herein engaged in rendering legal, accounting, tax, or other professional advice and services. Before making any decision or taking any action, you should consult a competent professional adviser.

© 2009 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity. *connectedthinking and 10Minutes are both trademarks of PricewaterhouseCoopers LLP (US). NY-09-0980