



Business Transformation Initiatives: Unlocking Benefits for Manufacturers

Executive Summary


A business transformation initiative, in whatever form it takes, can deliver real benefits to a manufacturing organization's bottom line. Despite persistent global economic uncertainty, the time is right to begin such a transformation effort, particularly if your company's coffers are flowing with cash, or merger and acquisition activity is high or expected to increase. Process improvements enabled by today's robust enterprise applications help improve efficiencies and better position your business to thrive in the new economy.

This white paper explores the fundamental issues that plague enterprise application rationalization and business process optimization initiatives, as well as the strategies that organizations should embrace to overcome them. Key highlights include:

- **Most companies' enterprise application portfolios are less than optimal.** CIOs traditionally hesitate to upgrade, migrate or optimize their enterprise applications, wary of not achieving ROI in a period of 12 to 18 months.
- **By some estimates, nearly 30% of companies rely on enterprise applications that are about to lose vendor support.** This makes it imperative to act, with or without a business case built on solid financial returns.
- **Organizations are missing out on major business benefits, including increased profitability, improvement in on-time delivery and reduction in operating and administrative costs,** by running out-of-date and untuned application portfolios.
- **Many companies are allowing their business processes to lie fallow.** Business process improvement, powered by more modern IT tools such as those based on a services-oriented architecture (SOA), can drive productivity improvements as well as cost efficiency.
- **A flurry of merger and acquisition activity in the U.S.** and elsewhere has resulted in an increased push to standardize processes and platforms to reduce complexity and operational costs.
- **Benefits of business transformation include reduced costs and improved efficiencies,** but it also delivers a better understanding of how your business is performing vis-à-vis the competition and the ability to adopt leading industry practices.
- **Organizational buy-in and ownership of projected benefits are key** to the success of a business transformation initiative.

Most Enterprise Application Portfolios are Suboptimal

For many business executives, transformational activities such as enterprise application optimization fall under the heading of "love to hate." This is especially true in manufacturing, where it is traditionally difficult to attain budget approval for IT investments. It can be challenging to build a strong business case to secure funding for application portfolio upgrades or rationalization.



Organizations are looking for ways to adapt to ever-changing business conditions and invest capital in revenue-generating opportunities vs. back-office support processes.

The most compelling driver is often that the application is about to lose vendor support. A significant number of companies find themselves in just that situation: Constellation Research principal R “Ray” Wang estimates that between 28% and 30% of North American companies face non-support for their primary enterprise applications in the next year to 18 months. For anyone in this boat, the failure to act could imperil the

business, whether or not they can identify the hard-dollar benefits of upgrading that will be achieved within a year or two.

Even organizations that are not facing the immediate sunset of their applications know that failing to optimize the underlying code base that runs their business will result in a less than ideal operating environment. In fact, failing to modernize their enterprise applications –

whether upgrading, migrating or integrating – means the company will miss out on transformational business capabilities that can reap real bottom-line rewards.

For example, according to a 2011 survey by consulting firm Mint Jutras of nearly 900 IT executives, those organizations that upgraded their ERP systems realized benefits ranging from increased profitability to improvements in on-time delivery, reduction of operating and administrative costs, reduction in inventory and faster cycle time.¹ According to Mint Jutras principal Cindy Jutras, the top ERP performers surveyed achieved more of these benefits than middle-of-the-road performers, chiefly because top performers are more likely to measure pre- and post-upgrade states and, therefore, have concrete evidence of improvements.

Organizations are paying a steep price – in business, not technical, terms – for their outdated application portfolios and inefficient processes. The most common negative effects include decreased productivity, increased application maintenance costs, missed innovation opportunities and employee frustration or attrition. In reality, few enterprise application portfolios are fully optimized and modernized. The need for application modernization is great; seven out of 10 respondents in a recent *Computerworld* Market Pulse survey of U.S. companies report

the need for improvement.² Meanwhile, according to the *Computerworld* survey, nearly 70% of respondents have a plan in place for enterprise application modernization, and 30% have plans to upgrade in the next 12 months.

Despite their historic preference to spend on factory floor technology vs. IT, manufacturers are expected to slowly thaw their IT spending, including enterprise application upgrades, according to a recent survey by Computer Economics.³ According to the survey, discrete manufacturing companies planned to increase their IT operational spending in 2011 by 3.8%. Process manufacturers surveyed, meanwhile, planned to increase IT operational spending by 2.5% in 2011.

Opportunity Knocks

The time appears right for companies to take the plunge into business transformation enabled by enterprise application optimization. Increasing M&A activity and strong corporate cash reserves can serve as catalysts to seize the moment and deploy common business models and platforms to achieve business benefits.

Business process changes defined during the Y2K ERP implementation boom have become outdated, inefficient and unable to take advantage of new enabling technologies, including SOA and SaaS (software as a service). In addition, organizations are looking for ways to adapt to ever-changing business conditions and invest capital in revenue-generating opportunities vs. back-office support processes. While many manufacturing executives still struggle to allocate funds for transformation initiatives, business leaders in many organizations are looking for ways to simplify the application landscape to reduce costs and create new business capabilities. A business transformation project can help improve your bottom line and increase flexibility to adapt to changing economic conditions, better or worse.

Setting the Stage for Transformation

M&A activity has been brisk in the U.S. since the Great Recession of 2008. M&A value in the U.S. increased 39% year-on-year by the middle of 2011, according to PricewaterhouseCoopers.⁴ According to PwC, corporations continued to use their strong cash positions and stock prices as currency to make acquisitions. Cash on corporate balance sheets continues to grow – the available cash on S&P 500 company balance sheets currently exceeds \$1.1 trillion, according to Factset Research Systems.

Many organizations that have grown (or are growing) by M&A are revisiting processes and developing standard business process models to be applied across the entire new organization. These models also serve as a template to rapidly integrate newly acquired companies and facilities onto a standard process. Depending on the overall strategic approach by an organization (i.e., holding company vs. fully integrated), scalable enterprise applications are crucial to enable integrating and supporting standardized business processes.

Many organizations are sitting on ample potential funding for business transformation, especially if it will drive increased efficiencies within 12 to 18 months. The uncertain global economy has encouraged many companies to hold onto cash and other liquid assets in unprecedented quantities. Corporate cash has been adding up since at least 1982 and is now at previously unseen levels, according to the Big Picture Website.⁵ The Fed reported that the 500 largest non-financial firms have roughly \$1.8 trillion in cash holdings as of July 2010.⁶ It is likely that companies on an acquisition spree will utilize some of these reserves to rationalize their acquisitions' systems.

Against this backdrop is an array of challenges facing organizations of all sizes and across industries. Common questions include:

- How are we positioned in comparison with our competitors and leading industry practices?
- What is the best approach to reduce cost in our back-office processes?
- Can we capture organizational synergies by har-

monizing business processes across disparate business units?

- How do we merge processes enabled by multiple ERP solutions into a common model?
- What is the timeline for benefits capture/realization?
- What is the ROI on capital spent to improve organizational capabilities?
- What are the organizational impacts as a result of transforming business processes?

Manufacturers can address most if not all of these questions by undertaking a business transformation initiative. Figure 1 shows key business process transformation enablers.

Transformation's Impact on the Organization

An initial step in understanding the gap between how an organization currently operates and the vision for the future is a "self assessment," using information and tools such as benchmarking data on competitors and industry/process maturity models. An important task is for business leaders to reach agreement on the organization's current state and vision for the future. While it is common and useful to have outside help in evaluating the gap between "as is" and "to be," the future vision needs to come from inside the company.

As a result of the assessment, the organization will have a list of one or more areas in which a gap exists between the desired best practice and the as-is state. These areas can include technology deficiencies (no business analytics capabilities,

Business Process Transformation Enablers

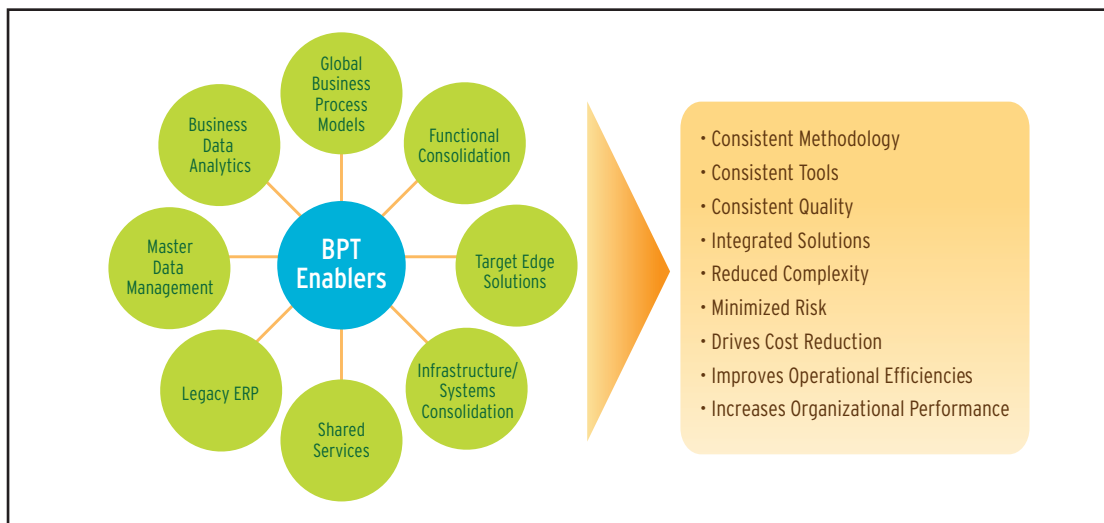


Figure 1

for example) or faulty processes. For example, you may discover from your self-assessment and industry benchmarking that leading companies in your industry outsource the accounts receivable process, ensuring payment within a 30-day window, while it takes an average of 58 days for you to receive payment. Your conclusion in this case may well be to work on selecting a business process outsourcing provider.

With the approval of the executive sponsor, often the CFO, the transformation team should prioritize the work bridging those gaps that are considered important to achieving key business improvement objectives (such as A/R, above). An assessment of each business process to be considered will provide specific opportunities for mitigating the current gap. Each opportunity will need to be evaluated for feasibility and potential return on investment through a business case development process.

In some cases, the effort and investment required to achieve the desired objectives and “best in class” end state may not be justifiable. Those deemed acceptable (and therefore approved) would be part of an organization’s overall project portfolio, with an associated roadmap for implementation. The roadmap would communicate the expected duration of each of the transformational opportunities, as well as when the benefit realization is expected to occur.

It is important that each opportunity not only has buy-in from all relevant stakeholders throughout the manufacturing organization, but also identifies individuals (i.e., managers from line-of-business units) as owners for achieving the business case objectives and ROI. Too often, in manufacturing as elsewhere, business case benefits are rarely, if ever, tracked and measured and even more rarely achieved. An important step to close the loop of any transformational effort is to evaluate the achievement of objectives, which we have found is most effective by assigning ownership.

Your gap analysis should also include an evaluation of your target process maturity and which stage of maturity you would like to attain. Let’s say, for example, that your customer-facing processes are in need of serious help due to their relative immaturity (your salespeople have not established relationships with key customers and are not proactive in selling new opportunities). Very likely, it is too much of a stretch to expect to go from this currently immature stage to the best-in-class level of maturity (in which sales is led by the executives with broad cross-functional support) with no stops in between. Focus your goals on what is realistic given your current state, vision for the future, available resources and, most importantly, your business objectives. (See Figure 2 for a schematic of how this decision process might work.)

Moving the Ball

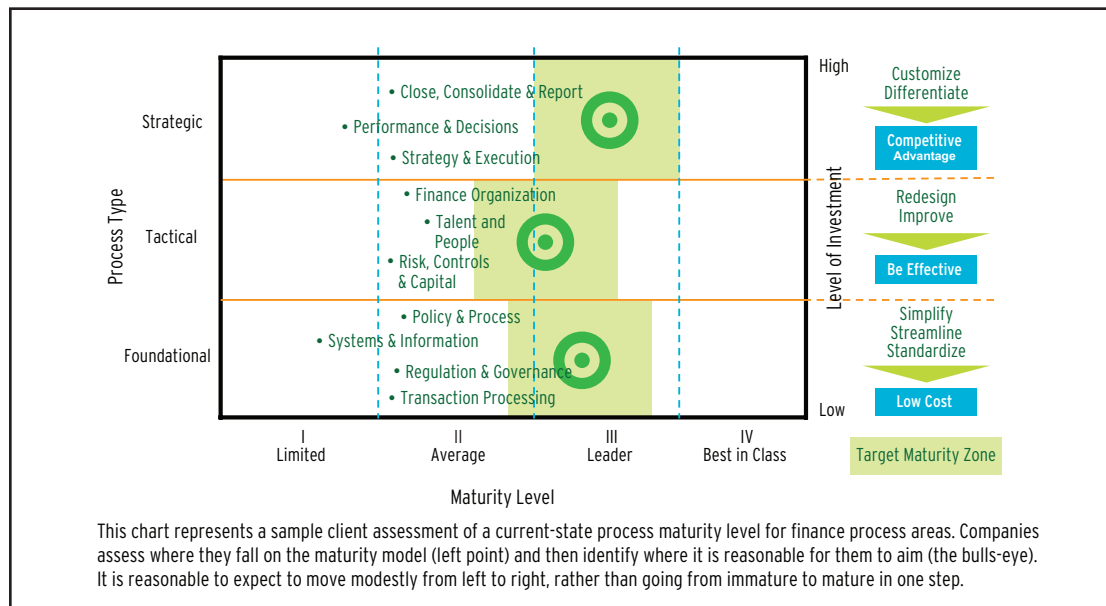


Figure 2

Applications Rationalization Roadmap

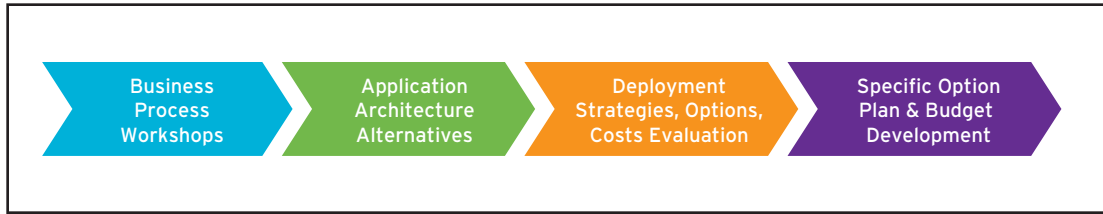


Figure 3

Business Transformation at Work

Let's consider a hypothetical example to see how a business transformation might work. Assume a \$5 billion manufacturer of branded and private-branded consumer-packaged goods embarks upon a business process transformation initiative. An aggressive M&A strategy had resulted in a plethora of systems in use across the organization – everything from SAP Financials running on a mainframe to Salesforce.com on mobile devices for salesforce contact management. The opportunity to leverage common systems and processes provided the catalyst to drive a business transformation initiative.

To better understand the opportunities, potential return on investment and roadmap to implementation, a consulting organization led the company through an assessment of current and future-state business processes and applications. To achieve the end-state objective of providing a comprehensive recommendation to the board of directors, the team utilized a structured methodology and proprietary accelerators. An example of the phases of this approach is depicted in Figure 3.

Several key deliverables were developed utilizing this approach, including business process improvement opportunities, a plan to adopt new functionality and applications, creation of business case definitions and identification of an implementation roadmap.

As noted earlier, one of the main concerns of top management prior to embarking on a major transformation effort is the investment to achieve the expected end results. Too often, business case ROI projections are not realized (see Figure 4). This is usually the result of a lack of management buy-in and ownership by the stakeholders most capable of providing the expected return.

However, a structured approach to business transformation increases the realization of benefits by “contracting” with stakeholders to deliver expected improvements. Continuing the CPG company example, several business improvement opportunities were evaluated for potential cost savings. These opportunities were adopted by the company and included as part of the goals and objectives of the stakeholders responsible for ensuring their implementation. Taking this approach and measuring actual achievement of each of the objectives yielded potential financial

Gauging Success

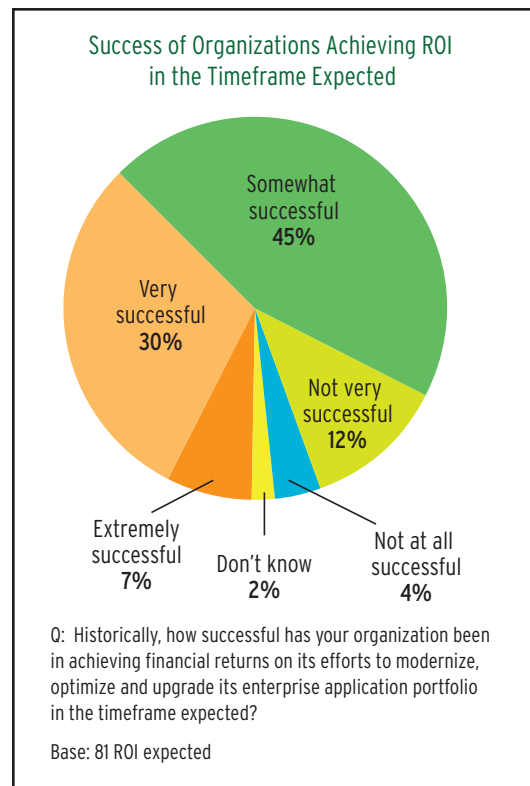


Figure 4

Exceeding Objective-Benefit Synchronicity

Opportunity	Description	Minimum Annual Savings	Potential Benefits
AP Consolidation	The current accounts payable process is spread over multiple sites and systems and across various organizational structures.	\$1,000,000	<ul style="list-style-type: none"> • Productivity improvements • Stronger financial and process controls • Increased amount of payment discounts received (i.e., 27 days to process invoices on average) • Reduce late payment penalties
Lot Tracking	Lot tracking for finished goods and raw material inventory lacks visibility for sales ordering, planning and manufacturing, which can lead to increased obsolescence and shortages.	\$500,000	<ul style="list-style-type: none"> • Reduced obsolete and dated inventory • Increased fill rate and customer service through accurate inventory availability • Reduced manufacturing "rush" orders • Operational efficiency with the demand revenue manager's planners and schedulers • Increased lot visibility to reduce obsolescence costs • Improved customer satisfaction • Product traceability, regulatory requirements or reduced recall costs
Order Management	Every EDI customer order is manually reviewed for accuracy prior to being moved to available-to-pick status; on average, clients process 80% of orders through EDI (across all divisions).	\$1,000,000	<ul style="list-style-type: none"> • Operational efficiency • Improved customer service • Increased profitability

Figure 5

benefits that exceeded the values for each of the opportunities (see representative examples in Figure 5).

Real-World Results

We have helped companies across various manufacturing sub-industries achieve the business transformation results they desired. For example, we worked on a multi-year engagement with a subsidiary of one of the largest global industrial distributors of plumbing and heating products in the UK. This company had pursued a growth strategy driven primarily by M&A, which resulted in over 18 independent brands in its portfolio.

In addition, the group we worked with featured over 50 brands within the group, each having disparate front-office processes with varying degrees of flexibility and inefficient back-office systems. The order-to-cash and procure-to-pay business processes were not centralized, so there were variations in the way a particular

process was carried out across the brands. These process inconsistencies were negatively affecting customer service, which was a major concern.

Along with the client, we conducted a multi-stage analysis, studying existing processes (the "as-is") and defining what a streamlined and unified process would look like (the "to-be"). We conducted multiple rounds of interviews with line-of-business users and held validation workshops with representatives across brands to communicate the future-state business process and gain buy-in from the various stakeholders and constituents. In total, we met with 140 business staff and more than 200 subject matter experts on current business processes.

Upon examining the current mode of operations, we identified the pain points, as well as the potential improvements. We defined a unified process set and helped the businesses identify common and unique processes.

Our client saw a number of distinct benefits. We helped obtain buy-in from the dispersed brands on a future mode of operations, acting as change agents for the business. Working with the client, our team created a process ownership hierarchy to define the to-be state process set. We consolidated and prioritized the business process improvement opportunities, created detailed business process documentation and identified process key performance indicators (KPIs) to measure efficiencies post-implementation.

In summary, we helped our client achieve the following benefits:

- The detailed business process documentation that the team created will accelerate blueprinting and configuration of business processes on whatever technology enabler is selected.
- The client can use our assessment of its current and future-state requirements for software package evaluation, benefiting projects in the short and medium terms.
- The use of maturity models identified gaps from industry best practices. These were addressed by defining the various process opportunities to close the gaps, and these improvements

were then incorporated into the implementation plan, along with assignment of stakeholder ownership.

- The detailed usability requirements will ensure faster user acceptance and provide an intuitive user interface for the future system.

Looking Forward

No company – least of all a manufacturer – undertakes a business transformation initiative lightly. In the face of continuing economic uncertainty, many companies will wait to act unless they no longer can put it off – in the case of their enterprise application losing the support of its vendor, for example.

On the other hand, business transformation offers undeniable benefits for those bold enough to undertake it, including more effective use of cash (be it through M&A or not), streamlining the IT infrastructure and support, which creates greater operational efficiencies. Perhaps most significant is the opportunity to add new business capabilities that either drive new revenue streams or make more effective use of a company's existing portfolio. All of these are welcome in any economic climate.

Footnotes

- ¹ Interview with Mint Jutras principal Cindy Jutras, Nov. 30, 2011.
- ² "Enterprise Application Modernization: Enabling Next-Generation Business Capabilities," *Computerworld* Custom Solutions Group. http://resources.idgenterprise.com/original/AST-0047635_fujitsu-modernization_v7FINAL.pdf
- ³ Jeff Moad, "Manufacturing Spending: Is it Time to Pick Up the Pace?" *Manufacturing Executive*, July 8, 2011. <http://www.manufacturing-executive.com/thread/1834>
- ⁴ "PwC Mid-Year M&A Outlook 2011," PricewaterhouseCoopers, June 2, 2011. <http://www.pwc.com/us/en/press-releases/2011/PwC-US-Mid-Year-M-and-A-Outlook-2011.jhtml>
- ⁵ Barry Ritholtz, "Corporate Cash has been Piling Up Since 1982," *The Big Picture*, July 12, 2010. <http://www.ritholtz.com/blog/2010/07/corporate-cash-has-been-piling-up-since-1982/>
- ⁶ Barry Ritholtz, "Corporate Cash: Top 20 Firms = \$635 Billion," *The Big Picture*, July 12, 2010. <http://www.ritholtz.com/blog/2010/07/corporate-cash-top-20-firms-635-billion/>

About the Author

Mark Hadler is a Consulting Partner within Cognizant Business Consulting who has led numerous ERP systems-enabled global business transformation projects across a full spectrum of business processes. He also directed several multinational, full-suite ERP implementations. Mark has over 23 years of combined industry and consulting experience advising clients on transforming and optimizing their processes. Prior to joining Cognizant, Mark held various leadership positions at Deloitte Consulting and Harley-Davidson. He holds an MBA from Marquette University. He can be reached at Mark.Hadler@cognizant.com.



About Cognizant

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