Enterprise Consolidation: A Transformational Approach

To simplify complex/disparate enterprise systems that undermine business performance, global companies need a rigorous methodology that dedicated teams can follow to consolidate systems and create uniform business processes that advance cost reduction and time-to-market acceleration initiatives.

Executive Summary

Enterprise consolidation (EC) initiatives are undertaken by multi-divisional firms across their global operations to drive business synergies and benefits. Companies that have grown through merger and acquisition (M&A) are challenged by an inability to harmonize discrete business units. Similarly, the lack of a uniform organic growth strategy can result in significant inefficiencies within multiple business unit operations, as well as within the underlying technology enablement layers.

This asynchronous state often presents a formidable barrier to further market expansion. For example, companies may find it difficult to manage their spend with key suppliers as the lack of global inventory visibility precludes effective strategic sourcing. In other cases, excessive operational costs preclude the justification for entering new markets that are crucial for the company’s long-term competitive positioning. Synergies that drive IT cost savings are limited if the business operations they support are highly differentiated with respect to one another. EC is an effective means of creating harmony across a global enterprise, with the primary emphasis on driving synergies operationally. These synergies are typically enabled through business process redesign and enterprise system harmonization.

In recent years, global manufacturers and distributors have begun significant enterprise transformation initiatives to consolidate their proliferated portfolio of IT solutions and infrastructure. The creation of a common global business operating model and solution template that can be leveraged across the global enterprise enables the transformation and harmonization of critical business processes, along with underlying business data design and supporting infrastructure. The competitive advantage resulting from a well-executed global harmonization program is substantial; in fact, various companies across numerous industries and regions of the world are already reaping these benefits. Furthermore, we are seeing an increased number of companies undertaking EC during periods of slow economic activity and/or poor internal financial performance – as the immediate positive impact of
reduced cost-to-serve and faster time-to-market produces positive ROI when properly scoped and delivered.

The CIO is expected to provide enterprise-wide technology support that enables effective and robust business operations in a cost-effective manner. Unfortunately, complex and inflexible IT enablement is often the most formidable barrier to overcome and may even limit the ability for the enterprise to capture market share otherwise within its reach. Consolidating disparate systems that have proliferated throughout the global enterprise during the execution of routine business activities is now a high value-adding proposition for companies seeking to boost business performance and operational efficiency.

In contrast to these challenges are the opportunities they produce for companies to create competitive advantage through focused EC initiatives. A recent McKinsey Quarterly article noted that IT synergies account for a significant amount of the overall value proposition for a pending M&A activity, purely from the standpoint of operational improvement. In addition, if a more efficient assimilation of the prospective business unit is made possible by simpler and faster IT accommodation, companies stand to gain in two respects: they achieve faster time-to-market as well as reduce end-state costs of operation.

Figure 1 shows that significant value addition resulting from M&A is directly linked to information technology benefits realization.

The ability for transformation experts to accurately plan these initiatives quickly dissipates with the size of the global entity and the number of moving parts. The effort and risks involved in the many trade-offs that will occur throughout the development of a common business and data model, and the corresponding changes required to the technology infrastructure, require more than a cursory understanding of the current state within each business/region involved. The degree of uncertainty in work-effort estimation for a Fortune 1000 global manufacturer or distributor about to undertake enterprise-wide consolidation may exceed 50% — and commonly, in our experience, will exceed 30%. This places an enormous risk onto the transformation planning team as they attempt to align resources, scope and timeline into a feasible project plan — with a manageable level of risk to the organization.

We find in practice that a dedicated and focused due-diligence assessment launched before expec-

Cost Benefits of M&A-Related Synergies

Often more than half of the synergies available in a merger are strongly related to IT.

### Synergy distribution by industry

<table>
<thead>
<tr>
<th>Unrelated to IT</th>
<th>IT Enabled</th>
<th>IT Alone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>Industrial</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>Financial</td>
<td>40%</td>
<td>25%</td>
</tr>
</tbody>
</table>

### Examples of synergies

- **IT Alone**
  - Lower IT infrastructure costs.
  - Reduced IT headcount.
  - Increased volume discounts for IT procurement.

- **IT Enabled**
  - Integrating functional systems reduces finance & HR costs.
  - Route optimization lowers logistics costs.
  - Integrating customer data offers better cross-selling revenue.

- **Unrelated to IT**
  - Fewer plants, distribution centers and headquarters reduce facility costs.
  - Lower financing costs.
  - Vendor consolidation lowers procurement costs.

Source: McKinsey Quarterly
Figure 1
tations are communicated and program budgets are established will greatly improve the chances of a successful transformation. Our enterprise consolidation assessment (ECA) methodology lays out a simple and effective method to align the strategic value drivers across the global entity and produce an accurate transformation roadmap and benefits realization plan that forms the basis of a much more realistic business case for capital appropriation. The ECA is packaged as a 6- to 12-week focused engagement for a small team of transformation experts that will produce an accurate business case with a high degree of accuracy and relevance with respect to the significant efforts that follow.

ECA is a deliverable-focused pre-project initiative that greatly reduces program risk. Activities and output artifacts discussed within the body of this writing compose the essential components to enable strategic enterprise transformation. The ECA discovery team consists of experts from our Enterprise Applications Systems Practice and client representatives. They rely on a large database of industry best practices, and other similar tools and accelerators are inherent in the structured approach to undertake the work. As a stand-alone entity, the ECA contributes significant incremental value to this mission-critical initiative and is generally delivered at a relatively small (estimated at less than 5%) incremental cost.

**Value Objectives for Enterprise Consolidation Initiatives**

Enterprise consolidation is generally undertaken either to improve operational performance for multidivisional entities, or in response to the proliferation of nonuniform business processes, data management services and/or underlying information technology systems—usually as a result of M&A.

In practice, we generally recognize two distinctly different types of enterprise transformation initiatives—those that are purely technology focused (e.g., data center consolidation), and the remainder which are focused on business operational improvement. Although both types will have an impact on both operations and technology functions, we stress the appreciation of the very significant differences that are introduced when a consolidation change imperative is business driven.

An example of a technology-driven consolidation program commonly undertaken is the reduction of data center utilization—and typically the merging of support functions into a smaller number of locations. This type of program has minimal impact on the operations; the effort expended for transformation (cloud-based or otherwise) is generally limited to technical departments. This white paper focuses on the types of enterprise transformation that are business-driven, and thus that have business-based value drivers, and impact business continuity as well as a host of business performance metrics that are essential to the CFO, COO and CIO.

Even a single acquisition made by a stable and efficient enterprise can be highly disruptive, and the speed and completeness of assimilation of the acquired entity generally has significant financial performance impact for the acquirer. M&A prospects are typically evaluated along three major dimensions of value impact:

- **Strategic change:** How will the new assets or products enable enhanced value generation?
- **Tactical change:** What types of new channels or IT systems are needed to succeed in new markets introduced through acquisition?
- **Operational change:** How will we operate differently once the new businesses/assets are assimilated?

Consolidation of operations and the underlying enabling technologies typically are evaluated in macro dimensions, but once a new acquisition is in place, or especially after a number of such take place, opportunity for operational improvement through resource leverage and shared services is typically explored.

A full-service EC transformation program will address all three of these value components and will be executed as a business-critical initiative, with the full and clear support of the highest levels of the organization. Therefore, the methodology that is presented herein considers the opportunities and risks to the company along all three dimensions.

Figure 2 illustrates the dimension we use to evaluate and measure global enterprise systems harmonization.
An important concept that must be fully grasped and clearly agreed upon across the organization prior to the undertaking of a consolidation initiative is that the “end state” will result in more uniform operations across previously autonomous units. This includes job roles, organizational structures and policies, business processes and the relevant business data and the underlying technologies that support them. The organizational change management effort may be substantial and often has a determining influence over the success of the program.

From here, we will examine the impact of EC with regards to tactical and operational value creation. However, due to the clear and critical impacts to the company’s strategic interests, all of our future state concepts and vision alternatives are aligned firmly in support of the company’s strategic objectives.

Understanding and Establishing the Strategic Program Objectives
Clear and measurable business-oriented objectives are established by executive management to drive the direction and priorities for consolidation initiative teams. These teams will be more effective if they are guided by clear and concise “value themes” that provide an end-state or achievement target. Value themes are ultimately the voice of the business, defining the criteria for success to the implementation team. Fulfillment of the objectives stated within the value theme should constitute successful transformation results, and hence will keep multiple teams working together to produce the results required and defined by the business.

Figure 3 (on the following page) highlights typical value themes for a branded pharmaceuticals manufacturer.

The specification of the business objectives for the future program can include these value themes and together they can be used to establish expectations and a high-level scope for the program. These value themes will accompany each business process engineering team along the course of their detailed blueprinting activities; we recommend they be printed in large banner form and hung within easy view throughout the design workshop phases. Additionally, proposed future state process designs and related change elements should be critiqued against the requirement to enable attainment of the value theme benefits and changes.

Enterprise Consolidation Assessment
From here, organizations must discuss the critical differentiating step that enables successful consolidation transformation – and the more complex the current operational landscape, the more critical it is for decision makers to invest the time to perform the ECA. We strongly advise our
clients to consider the ECA enhanced methodology for enterprise transformation programs. All EC programs should include the following deliverables:

- Current state process design flows – level two (e.g., MRP execution or order entry at point of sale).
- Current state performance metric baseline (e.g., days of inventory, perfect order percentage, costs of goods sold). Establish process scope to effect consolidation (define value themes for each process).
- Define the change imperative for each process.
- Walk through each business process in scope, in each location required, and define the “as-is” process state – which includes the integration touch points with other processes, the manual processes, the major causes of quality nonconformance, bottlenecks, labor hours per work station, etc.
- Develop a visionary level view of the target end state process and gain buy-in from all stakeholders within those business processes. This will include the major to-be design changes, new procedures to introduce or current procedures to change, automation of manual procedures, target performance metrics, etc.
- Alignment of the value themes established by senior leadership with the to-be end state vision.
- Gap analysis: The efforts required delivering the change, including resource training, new IT systems, changes to existing IT systems, changes to policies/procedures, etc.
- Alignment of the change requirements with value themes to assure that all of the stated strategic, tactical and operational value drivers are addressed appropriately.
- Project structural planning and options assessment: Analyze any variations that are feasible for global commonality, operational standards, technology standards, etc.
- Develop the high-level project plan and implementation roadmap: Validate throughout the business with the key stakeholders.
- Develop the bottom-up and top-down business case analyses in a format agreeable and acceptable to the CFO.

These activities and deliverables will then provide the project planning managers with accurate insight to develop the project charter, the project plan and resource onboarding schedules, to select the best internal resources and allocate them effectively to the various project roles and in general to complete traditional project preparation phase activities.

Understanding the criticality of an effective ECA phase, we recommend that the project managers and key subject matter experts (SMEs) that are likely to be appointed to the end-to-end program

<table>
<thead>
<tr>
<th>Business Process</th>
<th>Value Themes</th>
<th>Current State</th>
<th>Targeted End State</th>
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<tbody>
<tr>
<td>Direct Procurement</td>
<td>Provide global visibility of purchased goods data pertaining to all of suppliers.</td>
<td>Regional visibility is available with a very low degree of data integrity; no uniform data standards.</td>
<td>Global data availability and access, maximum data integrity — enables effective strategic sourcing program.</td>
</tr>
<tr>
<td>Warehouse Operations</td>
<td>Convert all new warehouse processes and peripheral technologies to a uniform standard and implement a common set of performance metrics.</td>
<td>Newly acquired warehouses utilize different ERP, different 3PL, uncommon labeling formats and different pick and pack rules.</td>
<td>Reengineered, common business processes, common IT enablement, single consolidated performance metrics dashboard, common job roles and organizational structures.</td>
</tr>
<tr>
<td>Sales Force Automation</td>
<td>Enable a single sales force to effectively market and sell all products within the consolidated portfolio.</td>
<td>Legacy company sales forces are equipped to sell and support only legacy product portfolios.</td>
<td>Sales force trained across all product lines, single mobile device toolset for order and account management, financial consolidation of all product lines and former legacy channels/customers.</td>
</tr>
</tbody>
</table>
are engaged right from the start to codevelop the ECA along with experienced practitioners from your systems integration (SI) community. Again, it should be noted that SIs with business process and industry expertise are likely better candidates to execute effective enterprise transformation initiatives for the reasons mentioned earlier. Other than with transformation initiatives that are purely technical (e.g., data center consolidation), partnering with a systems integrator with business performance and relevant industry expertise is advised.

The Business Case: A Recent Example

Many of our clients have found that without consolidation and simplification of operations their intended objectives from M&A were unattainable. Specifically, companies often invest in parallel products within their industry (e.g., medical devices) to augment their core product portfolio (e.g., pharmaceuticals), but may find that they cannot support the order fulfillment requirements or material purchasing needs for the new entities because the existing organizations differ significantly either in functional operation, locations, automation levels or other inherencies that affect assimilation.

The following ECA case study highlights the areas of benefit for both business and technology parameters. Figure 4 reveals the business benefits achieved by a $10 billion U.S.-based multinational that grew through multiple rounds of M&A and worked with us to successfully consolidate its enterprise systems.

The Seven Steps for ECA Success

Our seven-step ECA development methodology defines the scope and effort involved in an EC transformation project that enables a more realistic business case to be developed and presented for program funding. These activities are executed within or prior to the project preparation phase. Figure 5 (on next page) depicts our seven-step methodology. (See the Appendix for additional detail.)

The duration and resource requirements for each of these seven steps may vary depending on the individual initiative size and complexity, but this eight-week sequence embedded in our methodology is representative of successfully executed past assessments. ECA activities generally take a consistent directional course independent of the strategic drivers behind the change imperative.

### Potential Benefits Projections – 2013-2019

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<tr>
<td>Total over 7 years $79.9</td>
<td>Total over 7 years $81.1</td>
<td>Total over 7 years $36.0</td>
</tr>
<tr>
<td>Hosting (Data Center) $3.8</td>
<td>Reduced Inventory Days of Supply $3.8</td>
<td>Reduce IT Costs $2.6</td>
</tr>
<tr>
<td>License/Maintenance $13.0</td>
<td>Reduced Inventory Carrying Cost $1.2</td>
<td>Productivity – Supply Chain Planning $0.5</td>
</tr>
<tr>
<td>Internal IT Support Staff $20.1</td>
<td>Reduced Days of Sales Outstanding $2.4</td>
<td>Finance Operations $2.2</td>
</tr>
<tr>
<td>Application Enhancement/Break-Fix $7.9</td>
<td>Reduced Manufacturing Cost $7.0</td>
<td>Productivity – Period-End Close $1.0</td>
</tr>
<tr>
<td>Planned IT Cap-Ex $34.3</td>
<td>Reduced Direct Material Cost – Strategic Sourcing $1.9</td>
<td>Efficiency – General Accounting $1.7</td>
</tr>
<tr>
<td>Training $0.8</td>
<td>Reduced Indirect Material Cost – Strategic Sourcing $1.1</td>
<td>Efficiency – Inventory Accounting $0.4</td>
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</table>

- Unless otherwise stated, figures are annualized.
- Used average of benefits improvement ranges.
- Recurring benefits realization ramp-up assumption:
  - No benefits assumed in 2013.
  - 50% in 2014.
  - 75% in 2015.
  - 100% thereafter.

Conservative: $80M;
Likely: $120M;
Optimistic: $160M

*One-Time benefit – 100% in 2014

Note: Individual costs cited have been modified for privacy, but the total cost (internal and external) to our client for this 18-month project was in the range of $60 million; it was completed on time and under budget.
Developing the Business Case

The business case should follow the format typically utilized within the senior management circles, and ideally will be developed by informed and influential senior managers as well as by experienced senior members of the SI partner that will support the ultimate program.

We recommend that those practitioners engaged in the creation of the value proposition and business case details are also responsible for delivering them. When those responsible to deliver realized benefits are the same as those who project these target benefits, we find a more realistic and attainable value proposition results.

The primary classes of deliverables for the ECA business case for enterprise consolidation should include the following:

- Clear definition of the macro level scope elements.
- Timeline and implementation roadmap with pilot and regional cutover dates approved by the business.
- Mitigation plans for the major risks and contingency plans for any risk to business continuity.
- Technical infrastructure costs.
- Software license costs.
- Software maintenance costs.
- Internal project delivery resource labor costs.
- Backfill costs for internal resources.
- Training costs for backfill staff.
- Training costs for project team members.
- External spend for systems integrators, with contingency.
- Ongoing costs for support and maintenance, including total cost of ownership analyses.
- Costs incurred to organization if program does not proceed.
- Costs for organizational change management initiatives that enable successful transformation.
- BI and analytics costs.
- Benefits to organization from each process stream.
- Cost avoidance.
- Soft benefits to the organization from each process stream.
- List of standards and assumptions.

The business case is then presented with evaluated and agreed upon benefit opportunities and estimates performed at the conservative, likely and optimistic levels. From these component analyses a project payback period, present value and ROI can be formulated.

An annual schedule of cash flows along with an impact on earnings considering depreciation, segmented into capital and expense accompany a benefit realization annual schedule. As stated earlier, alignment between an enterprise consolidation transformation initiative and the company’s financial strategic objectives must be clear throughout. Achievement targets and priorities for future state operating performance established at the value driver level within the strategic plan should motivate the benefit realization objectives for the EC program (see Figure 6 on next page).
Moving Forward

EC projects enable the harmonization of previously nonuniform business operations, including processes, data design, organizational design and technology enablement. The change imperative that gives rise to EC can be strictly technology-based (e.g., hardware standardization), but more typically is driven by needs from the business. Merger and acquisition activities are major drivers for enterprise software consolidation initiatives.

The challenges in accurately scoping and planning an EC program increase nonlinearly with the number of regions and business units involved. In most cases, capital appropriations and project budgets are very difficult to estimate without an assessment period of due diligence and discovery. Our ECA provides the necessary clarity and insight to supplement the traditional project preparation phase with due diligence discovery activities and the associated output deliverables. The result is a significantly improved business case that contains accurate and balanced project scope, resource loading requirements and a feasible timeline that can be met with much lower risk to the organization, compared with standard project preparation.

Enterprise consolidation initiatives that are supplemented with an ECA contain more realistic business benefit realization targets as well as more accurate and realistic project budgets. The establishment of an accurate iron triangle project position (resources, scope and time balance versus risks) is more difficult without the due diligence exacted through the ECA.

Quick Take

Business Case Development: Key Artifacts

- Business benefits compiled annually by process area/region.
- Internal costs.
- External costs.
- Business case template for executive management.
- Capital appropriation request.
- Presentation materials for:
  - Steering committee/executive management.
  - Divisional management.
  - Internal stakeholders.
### Appendix: The ECA Methodology Snapshot

The following is a summary of the seven-step enterprise consolidation assessment methodology employed prior to the launch of the design phase of the transformation program:

<table>
<thead>
<tr>
<th>Step</th>
<th>Objectives</th>
<th>Key Artifacts</th>
</tr>
</thead>
</table>
| 1. Strategic Alignment | • Assure adherence to the corporate business strategies.  
• Define value drivers and value themes for use in defining and designing end state operations. | • Business drivers and objectives.  
• Relevant business pain points.  
• Guiding principles and design themes for the future consolidation initiative.  
• Business improvement objectives. |
| 2. Current State Business and Technology Assessments | • Document the current state process flows.  
• Capture the current strengths, weaknesses, opportunities and threats (SWOT analysis).  
• Define process performance metrics and benchmark current state performance levels.  
• Compare performance levels to industry benchmarks.  
• Define and document the technology infrastructure and operational protocols. | • Current state process flows – subprocess level – e.g., manage inbound receipts, order management against blanket contracts.  
• Current state functions and capabilities, unique and required, of localities/regions/business units.  
• Current state solutions in place/customization of those solutions.  
• Application architecture by location/business unit.  
• Business data flow diagram by location/business unit.  
• Technology infrastructure diagram by location/business unit. |
| 3. Create the High Level Vision for the End State (Business and Technology) | • Create a business model that fulfills the strategic, tactical and operational objectives of the organization – including the stated value themes.  
• Define the underlying technology enablement layer and data standards that would accompany the above, identify all feasible options within the time horizon of the solution. | • Globally common business model (at the level two of process decomposition).  
• Conceptual level two process flows for each process list of key performance indicators that determine effective operations.  
• Baseline performance metrics.  
• Conceptual technology landscape.  
• Conceptual business data flow diagram. |
| 4. Gap Analyses – Business Operations | • Compare the end state conceptual process vision to the current state.  
• Compare the end state technology enablement vision to the current state.  
• Define and prioritize each of the process and technology gaps.  
• Define business requirements to fulfill the gaps.  
• Define technology requirements to fulfill the gaps. | • Level three subprocess-activity level commonality matrix – by SBU/region – fitment to the baseline reference model.  
• Future state global process commonality matrix.  
• Initialized requirements traceability matrix.  
• Initialized master development object list. |
| 5. Gap Analyses – Technology Enablement | • Define the process scope master list – BPML.  
• Create a high level project plan and implementation roadmap.  
• Resource load the project timeline – including OCM initiatives.  
• Define the order of magnitude estimates.  
• Assess major risks and determine feasible deployment options.  
• Define the skills set job descriptions for all roles required for the program.  
• Define program risk at all phases of the initiative lifecycle.  
• Assign owners to manage program risk.  
• Define mitigation plans.  
• Define triggers and monitoring protocols.  
• Define risk response plans.  
• Assimilate risk management into the core project management approach. | • Scope definition – eight critical dimensions.  
• Implementation roadmap options.  
• Resource requirements.  
• Risk monitor – identifying inherent risk.  
• Risk management approach.  
• Risk management duties within the appropriate job descriptions of team leaders and PMs.  
• Risk management plan.  
• Issues management plan. |
| 6. Iron Triangle Analysis | • Define the change imperative.  
• Define the business benefit realization targets.  
• Assess program return on investment.  
• Establish resource levels and priorities for expenditure and delivery focus.  
• Formalize executive mandate and engage departmental leadership.  
• Provide the basis for funding of the program.  
• Mitigate risk. | • Business benefits compiled by process/region.  
• Internal costs.  
• External costs.  
• Business case template for executive management.  
• Capital appropriation request.  
• Presentation materials for:  
  › Steering committee/executive management.  
  › Divisional management.  
  › Internal stakeholders. |
| 7. Developing the Business Case | | |

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Footnotes

About the Authors
William Lasko is a Partner within Cognizant’s Enterprise Application Services Practice, responsible for the planning and delivery of global transformation initiatives for Fortune 500 clients worldwide. William has over 20 years of enterprise transformation business consulting experience and holds an M.B.A. from Carnegie Mellon University. He can be reached at William.Lasko@cognizant.com.

Harry Webb is a Partner in Cognizant’s Enterprise Application Services Practice, responsible for sales and delivery across the ERP, cloud, analytics and mobile domains. He has over 20 years of experience in ERP, primarily in program management and delivery oversight roles. Previously, Harry was an ERP partner at Deloitte Consulting and a SAP practice lead at EDS and Hewlett-Packard. He can be reached at Harry.Webb@cognizant.com.

Footnotes

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