

Get with the program

By Thomas H. Davenport, Susan Cantrell and Jeanne G. Harris

According to new research, companies capture the most value from their enterprise solutions by adopting ongoing programs that continually integrate, optimize and extend their systems.

Still not convinced that your enterprise solutions have generated any real value?

We understand your concern. After all, it's a major undertaking to implement organization-wide enterprise solutions, and the fact is, most companies are still building out their systems.

Enterprise solutions, of course, connect and manage information flows across complex organizations, allowing managers to make decisions based on information that truly reflects the current state of their business. These systems also automate complex transaction processes and thus save costs.

Because standardization and integration are essential parts of the enterprise solutions value proposition, companies can't get the full benefits until they install the systems throughout their organizations—as opposed to, for example, a discrete implementation for supply chain management or CRM. Given this reality, how likely is it that your enterprise systems will live up to your expectations and deliver real value?





The Accenture Institute for Strategic Change studied the experiences of 28 leading adopters of enterprise solutions. Results of the research showed that companies that approach implementation using three parallel strategies will capture significant value from their enterprise solutions. These companies—including Intel Corporation, Verizon Wireless and The Dow Chemical Company—told us that to extract the full measure of value, they treat enterprise solutions as an ongoing program that allows them to continually:

Integrate—provide a common platform to enable maximum efficiency.

Optimize—leverage the enterprise solutions investment to generate more value.

Extend—take advantage of further enterprise solutions capabilities.

Python and pig

Unlike earlier systems, in which users could realize substantial benefits as soon as the system was installed, experience suggests that enterprise solutions take time to deliver value. In fact, productivity may even decline initially. What IT pundits mistook for exhaustion and executives' short attention spans was, in fact, the reflection of a need to absorb the impact of enterprise solutions prior to the next wave of business value realization. As one IT executive in the insurance industry explained, "We are like a python digesting a pig."

Executives need to change the way they view their enterprise solutions initiatives. They need to think in terms of an ongoing program rather than in terms of a project with a specified end point. As one participant in our study put it, "Imple-

menting the basic transactional architecture is only Phase 1 of our overall program." Indeed, such a program will contain many projects, some of which will involve the implementation of system functionality and others that will involve business benefits derived from the systems.

Because companies expect to continually implement additional enterprise solutions functionality, integrate newly acquired best-of-breed applications and integrate systems from acquired companies, few of the executives we interviewed could see an end to these initiatives. But to be successful and, ultimately, to create value, all these initiatives need to be undertaken using the same three-pronged, business-oriented approach—an approach that is valid even if systems are completely installed.

Integration

To get full value from an enterprise solution, an organization needs to go through the often painful process of agreeing on a common way to define key information and perform key business processes. After standardizing data and processes, enterprise solutions allow large, complex global organizations to speak an enterprisewide common language.

Standardization does more than save money; it also speeds up communications and decision making. Financials from diverse business units can be consolidated easily. A global customer's orders can be viewed by anybody within the company from any location. The perennial aggravation of conflicting management reports can be banished forever. A financial systems manager at Microsoft emphasized how enterprise systems have enabled common processes, policies, reports

and metrics at the company, eliminating duplicate systems.

Although standardization is best addressed during the initial implementation, many of the organizations we studied found it too difficult; as a result, different versions, or “instances,” of enterprise solutions proliferated. Our research showed that it is quite common for companies to consolidate instances after the initial implementation is complete.

In some cases, instances may have proliferated as a result of mergers or acquisitions. At Verizon Wireless, which merged several large wireless communications companies, consolidation became a major cost-saving objective. According to the project manager, “Getting funding to con-

solidate was the easiest business case I’ve ever written.” He estimates that consolidation has saved the company \$25 million over two years.

From a business perspective, the most obvious route to consolidation-related cost savings is the adoption of shared services. Moving to common, centralized processes for such transaction-intensive activities as accounting, human resource management and procurement can yield savings of up to 30 percent.

From an IT perspective, consolidation may involve reducing the number of data centers and hardware platforms. A US consumer products company, for example, consolidated 75 data centers worldwide into two—one in the East and

one in the Midwest—and now uses a single hardware platform.

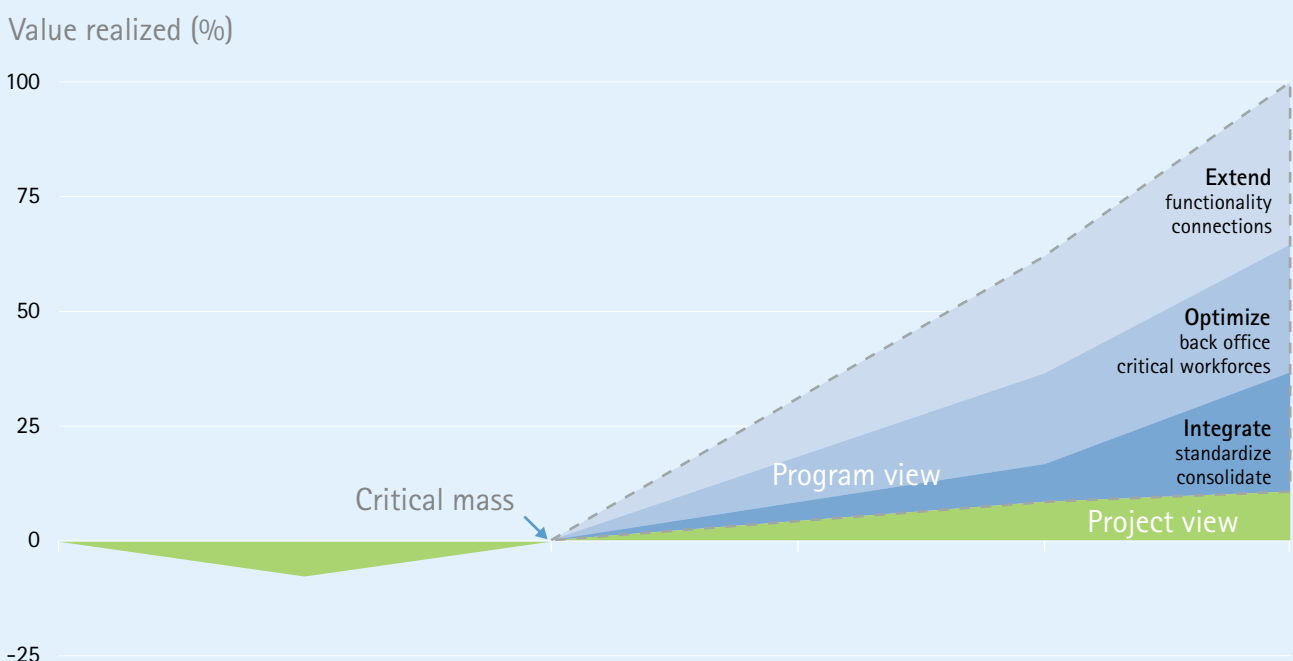
Optimization

Although few organizations today are interested in radical new process designs, companies focused on optimizing the value of their enterprise solutions investment regularly examine and improve how processes flow and fit with the system and how information is provided to critical workforces.

For example, one consumer products company has implemented its enterprise solutions system worldwide and now regularly examines the processes it supports. System deployment is highly centralized; however, the process improvement program,

A program, not a project

Many organizations are at a tipping point. Once they have implemented their enterprise solutions, achieving a critical mass of capability, they might be tempted to focus attention—and resources—elsewhere. However, to realize significant value, companies should view enterprise solutions not as a finite project but as an ongoing program centered around three strategies: integration, optimization and extension.



SOURCE: ACCENTURE ANALYSIS

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while companywide, is implemented at the local level. Each operating unit or geography decides where to focus and how best to implement change. Best practices are transferred quickly from one area of the company to another.

Other practitioners of this strategy, like Dow, credit business process optimization for their ability to react swiftly to changes in their business model due to internal or strategic changes or to external pressures such as market consolidation.

As companies gain mastery over their back offices, the focus of process optimization shifts to a different type of worker—one who is higher paid, more independent and more focused on knowledge work than on transactions.

Optimizing high-value knowledge work, such as sales and marketing, new product development and strategic planning, provides significant opportunities to improve not just efficiency but also innovation and effectiveness (see “The art of work,” *Outlook*, January 2002). Since there are now enterprise solutions modules that support each of these processes, many organizations we studied were adding CRM and supply chain management functions to their core enterprise systems, although they had not yet undertaken the redesign of the business processes employed in these areas. Those organizations that don’t are unlikely to gain the maximum value from these initiatives.

Enabling critical workforces

Increased demand from frontline workers will be driven by greater familiarity with data produced by enterprise solutions. Senior executives want better data and analytical capabilities, and they will be driven

by a desire to achieve the maximum benefits in a business case. Enterprise solutions can make a company’s critical workforces—for example, the frontline staff in sales, customer service and product development—more effective through better decision making and much more productive through the automation of routine tasks (see “Mission critical,” *Outlook*, January 2002).

However, this will happen only if that staff has access to the right information—and then actually uses it. Supply chain planners, for example, need a huge amount of accurate information, including current orders, sales projections, current and planned production, inventory levels, pending shortages and transportation alternatives. It all must be pulled together and synthesized quickly before the correct supply chain decisions can be made.

Prior to enterprise solutions, this information simply wasn’t available. Now companies have to ensure that supply chain planners and other frontline workers have the skills, the analytical software, the business processes and the authority to use all the new information effectively.

Senior management is another group of critical workers when it comes to using information produced by enterprise solutions. Now that executives have real-time, global, cross-functional data, how are they going to manage the business differently?

Cisco Systems has popularized the concept of the “virtual close,” or the ability to close its financial books in a matter of minutes (see “Rise of the digital CFO,” *Outlook*, January 2001). The company’s financial and general managers have used this capability to make better predictions about the effect

of acquisitions on the company's financial health and about the implications of operational changes on key performance metrics. Cisco has weathered the downturn in the telecom-equipment market better than its competitors in part because of its rapid, responsive financial processes.

What management process needs to be optimized in your organization? And how can enterprise solutions data be used to make it better? It may be strategic planning; the management of mergers, acquisitions, or divestitures; or communications with key stakeholders. Whatever the managerial domain, it's likely that enterprise solutions-enabled and managed information will mean significant improvement in the process.

Of course, a new enterprise solution can inadvertently trigger sensory overload when previously data-starved managers suddenly become inundated with new reports. Since the best technology is useless if managers do not pay attention and use the information it can deliver, companies must help manage attention effectively and improve decision-making processes. Some tools, like balanced scorecards, exception alerts or what General Electric Company calls a "digital dashboard"—all of which can be tied into an enterprise package—actually help focus management attention.

Extension

Executives at many companies we interviewed described the importance of implementing new systems on top of their newly integrated architecture—a strategy we call *extension*. This involves the continual development of more users who are more widely dispersed

geographically, as well as more functionality and more connections within the enterprise. One multinational company executive described the rationale for extension—in this case, for new CRM and business-to-business information exchange initiatives—as being based on “the principle that we can achieve real value by leveraging off the base.”

The companies in our study have continually added new functionality to their core systems; CRM and supply chain capabilities seem to be the most popular extensions. Indeed, some companies in difficulty—notably, several in Japan—are implementing CRM and supply chain management well before they complete their enterprise solutions projects, or even instead of such projects. These executives believe that the benefits of these customer-facing systems are too great to put off until the basic infrastructure is in place.

After CRM and supply chain management, the most likely candidate for enterprise solutions extension is new product development. In our study, however, we found a low incidence of such projects thus far.

In addition, a number of companies are undertaking one-to-one projects to integrate their enterprise solutions with those of individual customers or suppliers. This approach to interorganizational integration demands that the partners either agree on data definition or process flows, or that they employ a system that translates one organization's information into a format that can be used by the other organization.

The other leading approach for interconnecting enterprise solutions is to go through an intermediary organized by an industry consortium.

This is appealing because it allows a company to establish a single connection between its enterprise solutions and the industry hub, as well as minimize the work of integration.

What kind of industry hub would perform this enterprise solutions interconnection role? Increasingly, the industry consortia that were originally organized as online e-markets are evolving into enterprise solutions hubs. The most aggressive mover in this direction has been Elemica, a consortium that connects the enterprise solutions of the 22 chemical companies that sponsor it. This approach works particularly well for Elemica, since almost all of its sponsors have installed SAP; moreover, chemical companies see one another as customers and suppliers, as well as competitors.

(Separate Accenture research suggests that participants should adopt a portfolio of approaches to e-markets and exchanges to maximize the likelihood of success. Direct connections of enterprise solutions within trading partners should be one bet within a portfolio. If a company already participates in an industry group that has made progress on process and information standards, it should encourage the consortium to develop capabilities as an enterprise solutions hub. If there is no such association, a company would be better off pursuing one-to-one enterprise solution connections with its largest customers and suppliers. See “Why B2B e-markets are here to stay,” *Outlook*, July 2001.)

Ongoing evaluation

In this article, we have emphasized that the parallel strategies described above—integration, optimization and extension—should be conceived and implemented as an ongoing

Best practice at Dow Chemical

In the fast-moving chemical industry, no company has been better at taking the long view than The Dow Chemical Company. While competitors use upgrades and the latest whiz-bang add-ons to capture value, Dow relies on its 10-year plan—a factor that has been integral to making Dow the world's largest chemical company. It comes as little surprise, then, that Dow also embraces a long-term approach to enterprise solutions.

Dow's ongoing capacity for growth and capturing value from its enterprise solutions has a lot to do with what information services director Mike Costa calls "three boxes," which correspond well to the ideas of integrate, optimize and extend (see story).

The first box captures value from integration, consolidation and standardization. Since Dow has spent more than \$17 billion on acquisitions—including Union Carbide—in less than 10 years, this box takes on not just technological importance but significant strategic importance as well.

All acquisitions are integrated into Dow's infrastructure, avoiding the kind of ad hoc approach that would normally prompt information inefficiencies.

Additionally, the company has been able to eliminate redundant processes that required handoffs and data replication. From 1996 to 2000, for example, Dow cut costs by consolidating IT work, previously done in hundreds of sites, into four technology centers.

In the second box, Dow seeks to capture ongoing incremental value through business process optimization. "We've replaced organizational structure with informational structure and better reporting capability," says Joe Kerbleski, senior scientist at Dow.

Dow has a relatively flat organizational structure—there are never more than six layers from the CEO to the worker in the plant running the control room. Thanks to this structure, management responsibility extends to a much lower level in the organization, and managers are able to access information on a 24/7 basis anywhere in the world.

Five years ago Dow was managing along industry segments—for example, plastics in automotive. Now the

company is managing down to a customer product level within that industry segment. According to one technology executive, "The more information you give people, the more they want. Twelve years ago we had an operating company under a single model, then we had eight models. Now, because of information, you have more variation focused on how you service the customer better and faster."

This kind of optimization gives Dow a level of insight its competitors just can't achieve. According to someone who once worked for a Dow competitor, "[By comparison], we were running blind."

Dow's third box for getting value from enterprise systems involves its external relationships, and it seizes on the potential of extending enterprise solutions across electronic markets. Dow has adopted a "portfolio" approach to e-markets, with a variety of diverse initiatives underway. The company now operates and participates in multiple channel relationships, including a mix of independent, consortia and private exchanges.

Some e-markets in the portfolio help Dow gain selected efficiencies in maintenance, repair, operations and other indirect materials, while other e-markets will allow the company to evolve capabilities and provide "real options" on benefits from synchronized supply chains.

As Dow executives look 5 to 10 years down the road, they see the company becoming increasingly net-centric. In other words, they are adopting a model in which all sorts of business capability—from logistics and supply chain to finance and human resources—will be migrated to external channels. Consequently, the firm will face additional challenges. For example, it will have to coordinate the integration of internal and external information systems and optimize processes across firms.

One can only expect Dow's three boxes to increase in importance and capacity.

program. Our research suggests that to do this successfully, companies will need to create a permanent organizational unit to implement this program. This can be achieved without creating another layer of overhead and bureaucracy.

This unit shouldn't be large—in fact, most organizations will want to substantially decrease the size of their project offices after the core system has gone live. Many of the unit's members, particularly those on the business side, may be temporarily assigned to enterprise solutions value projects, as happened at one company we interviewed. Companies may also employ consultants for specialized tasks. But unless there is some coordination within the organization, they will be hard-pressed to capture significant value.

The unit should include personnel knowledgeable about the system itself, process improvement approaches, and the structure and function of the organization. Roles could include overseeing not only projects to enhance the value of the enterprise solution but also the installation of new software and reconfigurations of the system to accommodate changes in corporate structure, such as a reorganization or an acquisition.

Intel Corporation, for example, plans to set up such a group as it completes the initial installation of its enterprise solution. And organizations like Canada Post Corporation have set up "SAP Centers of Excellence." The US Defense Logistics Agency plans to name a "benefit realization manager," whose job will be to enforce changes and achieve the sort of results described above.

In any case, the unit should be positioned centrally within a com-

pany so its staff can serve as internal consultants or leaders for specific enterprise solutions-related projects throughout the organization. Alternatively, there could be specialization by the type of business change, particularly when specific groups—like a Six Sigma organization, for example—already exist.

This is a time of great opportunity. If your company is well along in its enterprise solution implementations, hang in there: The first, messy phase of the campaign is over. You are now positioned to achieve substantial value from the systems on which you've spent so much money, time and effort. But it won't happen automatically; it will require your ongoing attention—to integration, optimization and extension. ■

Thomas Davenport *is the director of the Accenture Institute for Strategic Change and a distinguished scholar in residence at Babson College in Wellesley, Massachusetts. He is an acclaimed speaker on the topics of information and knowledge management, reengineering, enterprise systems, and electronic business and markets. A widely published author, Dr. Davenport was named one of the 10 "Masters of the New Economy" by CIO in 2000.*

thomas.h.davenport@accenture.com

Susan Cantrell *is a research fellow at the Accenture Institute for Strategic Change. Her work focuses on business innovation, knowledge work and information systems. She has a master's degree in management information systems, and she has written articles for publications such as Industry Standard, Across the Board and Strategy and Leadership.*

susan.cantrell@accenture.com

Jeanne Harris *is a Chicago-based associate partner and senior research fellow at the Accenture Institute for Strategic Change. Her research focuses on improving managerial performance, knowledge management, business intelligence and enterprise systems; she also speaks frequently on these topics to executive audiences. Her research findings have been published in Sloan Management Review, California Management Review and Strategy and Leadership.*

jeanne.g.harris@accenture.com