CIO REPORTS THAT “STANDARDIZING AND CONSOLIDATION” YIELDED $100 MILLION IN ANNUAL BUSINESS BENEFITS, WITH MORE TO COME

The Hackett Group’s studies clearly show that most companies are struggling with a legacy of excess cost and operating complexity in their IT function. Yet we also see that certain world-class companies are successfully isolating the drivers of these problems and using this knowledge to drive improvements that create tangible business benefits.

In this case study, we share the experience of one of our clients, which adopted “standardization and consolidation” as its mantra in a multi-year, multi-pronged strategy to transform IT from a costly, decentralized country-centric model to a more unified global organization. This strategy originally netted over $100 million in annual business benefits within a relatively short timeframe.

I. Company Profile and Project Background

With approximately 30,000 employees at over 500 sites in over 70 countries worldwide, the $6 billion company provides an excellent example of how a focused IT complexity reduction program can overcome the inertia arising from operating in an environment characterized by a multiplicity of languages, legal requirements and local processes.

Adding to the complexity is the fact that the company produces a broad range of products and services, all of which must be supported by IT. The goal of the initiative is to increase IT’s effectiveness while significantly reducing its costs.

II. Business Challenge: Increasing IT’s Effectiveness while Reducing Costs

The business challenge faced by the CIO is a common, though extraordinarily difficult one for large, decentralized, global companies. The CIO and project leader, a self-professed “true believer” in best practices, added a further goal for his IT transformation project: to remake IT into a strategic weapon for the company by becoming “world-class,” as defined by The Hackett Group’s Information Technology benchmark.

For almost all of its history, the company operated with a strongly decentralized model, largely allowing country managers to run the business within their own country. Product units
manufactured the products, then sold them via transfer pricing to the same-country organizations, which then took on sales and service responsibility for these products. Multiplied over many organizations, each with its own leader, separate processes for each country, and a separate IT organization to support each of those entities, the company ended up with thousands of applications along with separate infrastructures and widely differing standards. Over 3,000 IT employees around the globe were tasked with supporting this complex scenario.

By the early 1990s, it became clear that the company’s IT costs and spending decisions were far out of line. To deal with this, management mandated that all IT organizations report to a single CIO. Nothing else changed; the company still had the same number of country heads, the same number of IT employees, the same level of complexity. In retrospect, it is of course easy to see that the initiative was doomed to failure. IT was put in the position of having to work against the culture of the company, trying to reinvent itself in an environment where no one else had any incentive to change.

Finally, several years ago the company chairman decided that the time had come for the firm’s country-centric structure to change, a major shift that had the effect of aligning the company to what IT had been trying to do all along. Country heads were eliminated; global business units were created, which were effectively product units that both manufactured and sold their products around the world. At the same time — because, importantly, the goal of the change in approach was to make the company more efficient as a whole, not just IT — basic support functions around the world were pulled into shared services centers.

III. Key Actions Which Enabled Change

A common global IT infrastructure was deployed
The company’s IT organization examined each application and identified a global standard for it, typically based on an “off-the-shelf” package. Each country’s system was then replaced with the standard. In Finance, for example, the company selected Oracle. To date, ERP has been the company’s largest project. The project team has been working on collapsing down over 50 financial systems around the world to one single instance. This major transition is envisioned to be accomplished over several years. Since, in its legacy systems, the company was distributed by geography, a new global standard was defined and launched first in one single geography. It was chosen because the way it functions is the closest approximation of how the company operates everywhere else. Once that was working well, additional geographies were rolled in. Originally they selected PeopleSoft HR, and decided to integrate with the Oracle platform.
To make this initiative work, the company redefined its whole application-development process. Originally, IT would first determine the requirements and then build the tool. Now the approach is to find the application with the closest fit to the requirements. Then, processes are mapped to the tool. According to the company’s CIO, “Customizations are done only when someone absolutely, positively cannot live with something. But financials, accounts receivable, general ledger, etc. are so standard from company to company that there should be no problem mapping to these systems. People may not want to sometimes, but the challenge is one of training and migration, not technology.”

The IT organization was reduced from many independent organizations to one.
As recently as a decade ago, the company had 60-plus organizations reporting to one person. Today, all of IT reports to one CIO, who owns the IT budget for every business unit and every geography.

In contrast to IT’s previously geographic model, today the function has been completely transitioned to be functionally organized. One person manages applications for the company; another owns networks all over the world; still another owns data centers. The CIO states that making one individual responsible for each of these areas was the first step in being able to collapse them down, “because we would have argued for years if we had multiple owners trying to agree on something.”

IT Executive “Sitting at the Table”
Senior management recently decided to take IT to the next level by appointing a senior executive who reports to the chairman as the overall IT process owner. This move was consistent with what was widely happening elsewhere at the time: As an expanding economy supported business growth and demands for increased technology spending, IT — due to its role as a strategic enabler of business value — experienced a shift in reporting relationships, as senior corporate executives such as CEOs, COOs and others demanded direct visibility into strategic technology activities (Fig. 1, Fig. 2).

Using a value-chain model — development, product management, sales, supply chain, service, and so forth — and identifying common processes like Finance, Procurement, and Human Resources, this executive has assigned senior managers to “own” each portion. Owners are charged with driving the most efficient processes possible, for all geographies and all business units.

The overarching goal of this organizational design is to drive standard processes throughout the company in every case except where a compelling reason exists to make an exception.
Additional strategies were adopted to reduce complexity in data management and infrastructure
While the project team went through the enterprise process, it also worked on adopting a single enterprise data warehousing strategy, an important piece of the overall strategy to improve IT and reduce its cost.

Previously, the company had significant complexity in its online systems. Upon analysis, the team found that the financial systems were clogged with management and analytical data, rather than just the data required to report financials. Once all the unrelated data was transferred out of transaction systems, the company’s finance people were able to close the books much faster.

A continuous-improvement approach was adopted
As part of its IT initiative, the company adopted a continuous-improvement mindset, starting with establishing metrics for every conceivable process and output. The company has also adopted a Capability Maturity Model (CMM) to assess IT service-delivery capabilities, and to set the direction for additional improvements. CMM helps drive many process improvements that can be measured incrementally over time. Recently, this approach was taken to the next level, with process owners formally assigned to each area. For example, today there is an owner of engineering across the entire company; an owner of manufacturing; an owner of sales, and so on. This approach makes IT’s job easier because the IT organization has a single go-to person, one who owns the process companywide. By aligning IT and the business in this way, the company is successfully reducing costs on the business side by defining best-in-class processes and driving those into all the business units. Importantly, its alignment of business process with IT helps reduce costs without stifling innovation at the business-unit level.

IV. Business Impact
The company is not yet finished with its enterprise strategy, but as an example of the returns derived so far in the form of business process efficiency, today, every one of the company’s thousands of disparate products can be found in a single database. Product managers take a new product, enter it in the database, enter the prices and configuration rules, and immediately, that product can be configured and ordered worldwide. This process used to take weeks, if not months.

In addition to the benefits described above, an interesting side effect of the ERP project, which started solely to simplify IT, has been that, over time, the company’s business units have identified a growing list of benefits, which today total well over $100 million annually. This support from the business has helped the CIO accelerate acceptance of the ERP companywide. “At the beginning of the project,” he relates, “I had to badger my way in. Today, we’re at the point where we hear, ‘Why can’t you do this quicker?’ You know you’re aligned when everybody’s after you to get it rolled out more quickly.”

V. Key Learnings
Take a strong position and stick to it when it comes to application standards
The company made a mistake in the first round of standardization by agreeing to business-unit demands to customize applications to some degree to fit local processes, in exchange for buy-in on the project. This approach got the company semi-standardized, but it added significantly to cycle time and cost.

IT launched a second round of activity, designed to collapse the company’s separate country infrastructures down to single-instance enterprise systems to support the shift to a global business model. This time, only off-the-shelf packages were used. Further, the project team made the process to get a customization approved as painful and bureaucratic as possible for the people making the request. The result was a dramatic drop in customization requests. This approach did not give everybody everything they wanted, but at least now the company is operating with one system. Improvements will be made incrementally over time.

Faced with a similar challenge, some companies will start with common best practices, then find the technology to support those practices. Others, in effect, will mold the processes to fit around the tools they are implementing. We believe that companies should opt for the latter approach, because Hackett data suggests strongly that the first way is ultimately unworkable. Our data reveals that at world-class IT organizations, 90% of projects adhere to a common development standard (Fig. 2).

Dealing with cultural challenges requires objective metrics and executive-level support
Early on, even after new processes were defined and agreed on, the project team found that processes were not being adhered to. A key learning was that in addition to pre-implementation metrics, very rigorous post-implementation metrics are necessary. Today, these metrics are examined weekly to determine whether people are slipping back into old habits. By tracking post-implementation metrics closely, managers can identify where culture change is lagging and take corrective steps.
When cutting over to a new system, old systems must be shut off once the new one is up and running. Otherwise, people will naturally prefer to use the old system.

**Adopt a centralized, TCO approach for IT to uncover additional opportunities for significant savings**

At the company described in this study (and doubtless at every large company), despite the presence of a centralized IT organization, people in the field still tend to independently buy PCs, printers, wireless communication devices, cell phones, long-distance calling plans and so forth, incurring large costs invisible at the corporate level. To counter this, the company adopted a total-cost-of-ownership (TCO) mentality. Anything remotely related to technology is subject to a centrally mandated and coordinated acquisition policy, in a rigorous effort to drive down cost.

**IT’s priorities must be synchronized with those of the business in order to succeed**

Initially, when the project team started out within IT on the new strategy, the company remained on the global model. Thus, IT was completely misaligned with the rest of the business, making the effort to reduce IT costs fruitless. Several years ago, when the company as a whole aligned to a global model, the CIO began recruiting finance and HR staff and put them into the IT organization.

Paid out of the IT budget, their responsibility is to focus purely on business alignment, working with process owners to understand their priorities. By taking this approach, IT has been successful at synchronizing its priorities with the business, and at aligning business processes as new systems are deployed.

**VI. Looking Ahead**

Technology is making it increasingly possible to operate in a highly distributed environment. Ironically, however, doing so will have a massive impact on IT. A highly dispersed, poorly managed architecture that makes use of many individual applications will drive greater environmental complexity and more suppliers to manage.

Further, once started down this path, companies will find that application complexity only begets further complexity, as more data centers and more programming languages drive higher costs and risks. Add outsourcing to the mix and the problems will only escalate: Multiple data centers and related supplier, customer and database platforms unquestionably reduce the amount of leverage that companies have with outsourcers, thus raising costs and risks. More complexity also drives the need for more staff (in development, maintenance, help desk and management oversight), and negatively impacts cycle times and flexibility.

Therefore, regardless of the strategy of the business — to be low-cost, to provide the greatest possible value, or some combination of the two — IT organizations will need to find appropriate avenues for mitigating complexity.

**VII. Related Hackett Research**


“Level of Technology Use Across Accounts Payable Proves More Important than Age or Integration of Systems,” June 11, 2004 (1300021)

“Financial Application Choice is Irrelevant in Achieving World-Class Performance,” April 30, 2004 (1300015)

“Your Sarbanes Compliance Activities Are Being Wasted If Your ERP Isn’t Compliant,” December 9, 2003 (1300002)

‘System Complexity Causes Conflicts between ERPs and Shared Services that Inhibit ROI in Both,” December 8, 2003 (1300011)
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Mr. Hebert, who leads The Hackett Group’s Information Technology practice, has over 15 years of experience as a financial analyst; in developing custom business applications and integrating them with legacy systems; and implementing Oracle financial and supply chain applications. Mr. Hebert began his career at General Motors, where he served on a design team for the development, stabilization and optimization of proprietary financial and procurement systems. Additionally, he has personally managed many large, complex projects involving significant technical and functional challenges. Working with executives at numerous Fortune 1000 companies, he has functioned variously as Project Director, Project Manager, Functional Team Leader, Technical Team Leader, and Application Developer in efforts aimed at optimizing the ERP application environment and reducing total cost of ownership.

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