TRANSFORMATIONAL ERP SCALING FOR SUBSIDIARIES: *THREE STEPS FOR CIOS*

Mergers and acquisitions continue to abound as companies seek new opportunities to grow their portfolios of products and services to ultimately drive results to the bottom line. M&A activity prompts a challenge for CIOs when it comes to how best to integrate the technology ecosystem. Odds are likely to favor the newly acquired subsidiary possessing an entirely different technology platform or ERP.

At first pass, the CIO is faced with the choices to:

- Integrate by converting to the parent company's centralized ERP,
- Pursue a less aggressive federated two-tier cloud-based deployment, or
- Leave standalone and take a more as-needed approach by building bridges to integrate data and reporting platforms

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Vendors today are aggressively marketing their cloud-based ERP solutions. The cloud-based two-tier model provides an opportunity for CIOs to evaluate if this could be a pathway for carefully orchestrating a shift from an on-premises traditional ERP solution that requires a time-intensive, large-scale capital and resource investment, whereas a two-tier investment is viewed as the more agile, timely, and cost-effective offering.

One-tier vs. Two-tier

Ruling out the standalone as a last resort, this leaves CIOs with the choice between an one-tier or two-tier solution. Below, we present a quick overview of the transition from the one-tier centralized model to the two-tier federated model.

MODEL	ONE-TIER - CENTRALIZED	TWO-TIER - FEDERATED
PROFILE	▪ Traditional large-scale, on-premises ERP implementation	▪ Agile and scalable architecture enabled with two-tier deployment in the cloud
ATTRIBUTES	▪ Standardized deployment with common processes with broad deep functionality ▪ Rigorous change control promotes quality standards adherence but may slow innovation – downtime impacts entire organization	▪ Standardized cloud solution with pre-configured / fit-to-standard processes ▪ Lighter depth of functionality allows autonomy for subsidiary ▪ Continuous/flexible (adopt at your own pace) innovation – reduced downtime impact
NET-NET	▪ More complex, higher cost, and longer implementation timeline but may be justified to position for high growth ▪ Breadth and depth of functionality and quality control needs	▪ Scalable, low total cost of ownership ▪ Speed-to-market may have functionality limitations and may be quickly out-grown

There are pragmatic steps a CIO can take successfully to chart the right course to leverage their existing one-tier ERP and determine how best to evolve the deployment of a two-tier solution in their subsidiaries and with their network of partners.

Ultimately, the steps are to:

1. Align to the strategic business drivers.
2. Leverage the drivers to define the right solution.
3. Maintain a transformation-focused mindset.

ALIGN TO THE STRATEGIC BUSINESS DRIVERS

To be successful, CIOs must validate that the direction being undertaken by IT aligns with the key business drivers and the outlook of the overall enterprise. They'll also need to confirm the future intent of the subsidiary's line of business in relationship to the parent company.

The below chart provides examples of the questions that CIOs can ask themselves to determine to what degree they should maintain a one-tier implementation approach versus identifying opportunities to leverage the benefits of a cloud-based two-tier approach:

DEGREE OF INTEGRATION	Is the subsidiary going to be relatively stand-alone, or is it going to be a vital part of expanding portfolio and integral to future operations?
SPEED-TO-MARKET	Is there an urgency for onboarding the new subsidiary and accelerating speed-to-market, prompting a tight timeline to implement?
GROWTH MODE	What are the growth projections for the subsidiary, and will it require breadth and depth of functionality to meet productivity and quality control needs?
STAYING OR GOING?	Will the subsidiary be readied for a spin-off or divestiture?
HIGH-PRIORITY FUNCTIONALITY	Will there be new business models, processes, and practices for the subsidiary to adopt? What is the necessity of business process standardization (i.e., manufacturing & supply chain, quality management, finance, regulatory)?

A key step in the evaluation of the key business drivers is to differentiate the requirements based on the robustness of solution functionality and capabilities that are needed now versus in the future. You must determine the critical operational functions most appropriate for continuing – at least for now – in a one-tier environment, and then seek opportunities to evolve the deployment of less critical functions in the cloud-based two-tier environment.

A sample of key functions to assess includes:

- Research & Development
- Procurement
- Manufacturing
- Supply Chain
- Sales & After Sales Service
- Finance
- Asset Management

LEVERAGE THE DRIVERS TO DEFINE THE RIGHT SOLUTION

Next, with a comprehensive set of requirements on hand, CIOs must use them to guide a thorough identification and evaluation of an ERP solution option for your organization: one-tier or two-tier?

The key drivers for one-tier:

- Positions the subsidiary for anticipated growth and corresponding requirements for broad and deep functionality
- Maintains standardization and minimizing latency for critical operations (e.g., to maintain productivity goals)
- Sustains resilient centralized governance with rigorous change controls (e.g., to maintain quality and regulatory compliance standards)
- Leverages the existing ERP investment and in-house development and support teams

The key drivers for two-tier:

- Accelerates onboarding and integration of the subsidiary while lowering the total cost of ownership (TCO) by transitioning from a large upfront capital investment to an ongoing operating expense
- Enables "agile" (adopt at your own pace) migration to a standardized platform with new and carved-out business models and processes
- Leverages centralized services (e.g., finance, procurement) with extended controls utilizing application programming interfaces (APIs) to exchange, integrate, and reconcile data
- Connects business partners (vendors, dealers, CDMOs) and supports venture into new markets (JVs)
- Shifts infrastructure investment, systems management, and maintenance to a third party with timely upgrades and greater security
- Prepares a subsidiary for divestiture

An additional consideration is whether to go with your ERP vendor or choose another for your two-tier model. **The pros of leveraging your existing ERP include:**

- Standardizes technology and provides system compatibility
- Extends like business models and processes
- Eases data aggregation/integration and reporting
- Leverages existing technology talent versus staffing a new technology pool

Finally, conduct a cost-benefit and TCO analysis. The criteria should include the merit of two-tier on its ability to meet the business requirements, implementation cost, and considerations of ongoing operating expenses.

The approach previously outlined provides a pragmatic framework for assessing one-tier versus two-tier. The assessment will determine to what degree key business functions (e.g., procurement, manufacturing, supply chain, finance) should remain in a one-tier model or be deployed using a two-tier model across the organization and with a network of key business partners.

MAINTAIN A TRANSFORMATION-FOCUSED MINDSET

To realize the value of the defined ERP strategy for a subsidiary, organizations must thoroughly define the implementation and integration roadmap accounting for the transformation required to truly realize the benefits of such an undertaking.

Key elements for a successful transformation include:

- Leadership engaged and "walking the talk" with the right messaging and endorsement.
- Having the right resources deployed, both in-house and augmented. *Are your in-house IT resources capable of the lift required for the implementation, or will you need to augment with a strategic partner?*
- Not underestimating the need for strong PMO leadership – they help to guide a successful implementation with methods and tools for planning, monitoring, and demonstrating value delivery.
- A strong change management program based on a thorough stakeholder analysis defining communication and training requirements that ensure successful adaption and adoption of the new ERP.

Once the implementation has been completed, don't forget to take a moment to express appreciation and celebrate your team's collective success. Too often today, the mindset is to quickly move on to the next big thing without taking a step back to recognize accomplishments and value delivery.

LOOKING AHEAD

Historically, ERP system implementations have been viewed as strategic necessities but are often characterized as resource-intensive, time-consuming, and costly investments for a business. As M&A activity continues, CIOs find themselves faced with how to best integrate a new subsidiary into their existing ERP ecosystem. One-tier positions an organization for anticipated growth with breadth and depth of functionality and tighter controls, while the cloud-based two-tier solution offers CIOs an opportunity to evolve and scale in an agile and cost-efficient manner. Careful consideration of key business drivers needs to play into determining the right solution along with a transformation-focused mindset.

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