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A Roadmap to Centralization in the ERP World

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A Roadmap to Centralization in the ERP World



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As corporations look to adopt global enterprise resource planning (ERP) systems, one of the primary drivers is the notion of centralizing key operations. Corporations are looking to increase synergies among multiple business units and save on costs by centralizing key homogenous processes and creating/maintaining critical master data. Oracle E-Business Suite (EBS) Release 12 (R12) offers several features that aid the centralized shared service process. This article provides a methodology for evaluating and implementing centralization within the ERP framework.

The journey to centralization started in the early 1990s with organizations establishing back office processing centers for their routine operational work and support centers for their IT applications support services. Wide adoption of ERP applications across multiple global business units, led to organizations having a standardized platform from an information technology perspective.

As a next step corporations started aiming at centralizing their key business processes with the objective of leveraging a common IT platform, achieving synergies across businesses and consequently driving down costs across the organization. Today, corporations are increasingly looking at centralization as a strategic step to gain process efficiencies and increase standardization, rather than just as a cost saving technique. ERP software vendors have also started accommodating these requirements in their software versions. The Oracle EBS R12 and Master Data Management (MDM) suite of products are all aimed at augmenting the needs of corporations to effectively operate a centralized control over their operations.

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What is Centralized Shared Service?

Centralization is a service delivery model that aims to provide administrative, support and maintenance services of enterprise applications by a common pool of resources. Typically, companies create a separate delivery unit dedicated to providing common services across multiple entities within the organization.

Centralization of services offers significant advantages in terms of cost savings, enhanced operational control and increased efficiency in operations. On the flip side, centralization can lead to lack of responsiveness, hampering of autonomous decision making and employees feeling loss of control.

What Should be Centralized?

Within the ERP applications space, there are three basic areas that are generally regarded as adept to centralization.

Master Data

Master data is one of the more recent trends in the centralization roadmap. The term master data is used to define important master information that is widely used and shared across the organization.

Suppliers, customers, employees, inventory items and chart of account information are the most common elements that organizations choose to centralize.

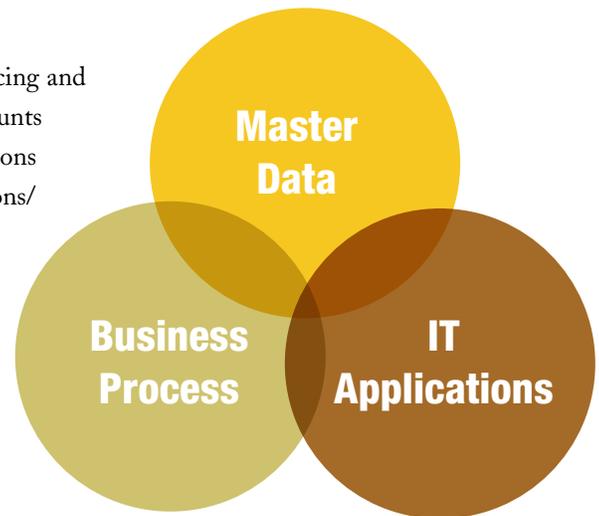
Oracle offers a Master Data Management suite of products that is intended for consolidating and maintaining a single repository of master data across the organization.

Business Processes

Centralizing business processes is one of the more difficult decisions to make in today's environment. This is mainly because even basic conventional processes can vary across multiple business units with minor nuances in each of them.

Another reason is reluctance on the part of the business units themselves to cede control over their operations. However, the trend of centralization started with the attempts to centralize these very elements. Organizations started with centralizing accounts payable

functions (invoicing and payments), accounts receivable functions (receipt collections/applications), payroll, etc., and gradually extended it to customer collections, general ledger administration and reporting, fixed asset administration and procurement.



IT Applications

One question is always in the minds of IT executives: Should corporations consolidate all operations into a single global ERP instance or is it better to continue with multiple systems with linkages between them?

A single instance brings about standardization, reduced costs in terms of maintenance and support, and better management control over operations. With multiple systems, organizations have the flexibility to adopt best-of-breed systems and save on implementation costs of consolidating all operations into one system. With the emergence of middleware tools (SOA-BPEL etc.), these linkages have become simpler and easier.

Positioning Elements in a Fitment Quadrant within an Organization

To decide whether a particular set of master data, process or IT applications should be centralized or not, they have to be evaluated on a combination of four primary conditions. These conditions have been grouped under two heads as enumerated under:

Necessary: *Fundamental conditions that influence the decision-making process.*

- 1) **Homogeneity:** Whether the set of master data/business processes/IT applications spread across multiple units are more or less uniform in shape, size and design.

- 2) **Desire for Control:** How important are the data/process/IT applications for the corporation's day-to-day business activity, and how significant is the desire for centralized control over operations of these elements?

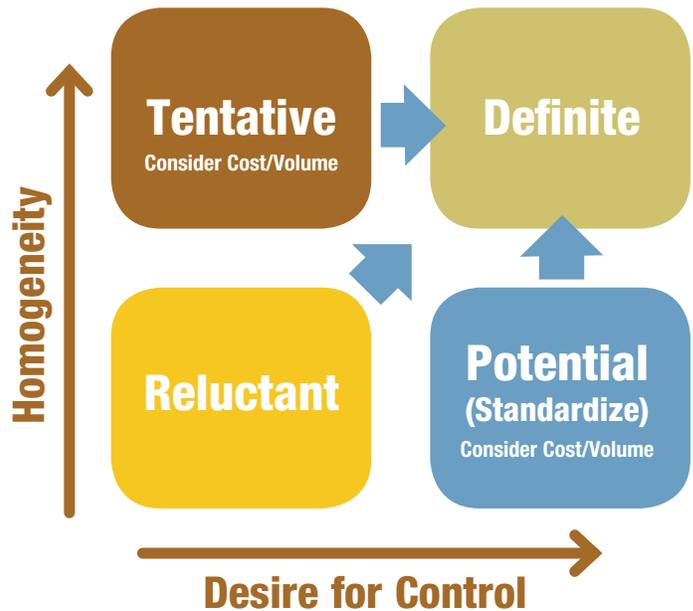
Sufficient: *Essential conditions that act as an important evaluation criteria.*

- 3) **Cost:** What is the cost of change? What is the cost-benefit that the organization visualizes while deciding to centralize or not?
- 4) **Volume:** Whether there is enough operational volume to justify centralizing the elements.

Each set of data/process/IT applications should then be mapped in the Fitment Quadrant as a first step in evaluating the opportunity to move toward centralization.

1) Definite

All elements that are highly critical and homogeneous are perfect candidates for centralization. Cost and volume will have less of a material impact on this decision. Even if the cost of centralizing is high or the volume is low, it would still be advantageous for corporations to centralize this set of elements. Employee data, HR personnel functions and chart of accounts information are good examples of this school of thought. The desire for centralized control of this element far overrides cost and volume considerations.



Fitment Quadrant provides a graphical view to evaluate each set of elements in the decision-making exercise.

reporting are important elements that corporations generally have a good desire to control and monitor.

As corporations become more and more globalized, sometimes these elements can vary significantly within multiple business units. To centralize such diversified data, it is essential to homogenize them. Corporations can gain significant advantages by controlling these elements.

Standardized data offers a single view of customers/suppliers/items that can lead to better streamlined and efficient operations on the downstream processes associated with them. These elements generally have enough volume of operations associated with them. Cost and ability to standardize are the important deciding factors in this case.

3) Tentative

Certain elements such as fixed asset administration or the customer collection process, etc., are highly homogenous but not overly critical in the normal course of business. A decision to centralize these elements should take into account cost-benefit analysis, volume of operations and a strategic viewpoint. These elements can easily move into the centralized mode because they are inherently homogenous and easy to operate.

“ Ultimately, each organization has a different set of requirements and viewpoints. A decision on what to centralize and how to centralize must be tailored to suit an organization's unique needs. ”

2) Potential

Master data creation/maintenance of customers, suppliers, items and processes such as customer/supplier invoice processing, supplier payments, customer receipt applications and general ledger

Some Tips to Keep in Mind

4) Reluctant

In a globalized world, several key processes are best served if they are localized. Processes/IT applications directly involved in serving end customer needs (order entry, order fulfillment, claims, procurement, etc.), activities involving local legal and tax requirements, certain unique processes relevant to certain geographies, etc. are good examples of these. An effort can be made to centralize these but they could involve significant amounts of effort and time. A cost-benefit analysis coupled with an end-user impact analysis should be the criteria in deciding whether the exercise is worth the effort.

Conclusion

Ultimately, each organization has a different set of requirements and viewpoints. A decision on what to centralize and how to centralize must be tailored to suit an organization's unique needs. A comprehensive use of the features provided by Oracle (PIM, MDM, R12 Multi-Org Access Control, Platform Based Solutions, etc.) combined with adoption of suitable change management and support procedures will enable organizations to effectively embrace the centralization paradigm in today's ever-changing environment. 🌐

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Standardize, Standardize, Standardize

The success of centralization depends on the ability to create and maintain a set of consistent standards across the organization. The more fragmented the elements are, the more there are chances of error. Before any organization jumps on the centralization bandwagon, it is extremely necessary (to try as much as possible) to adopt a common protocol across all entities. Even if some process changes are required and IT applications have to be consolidated, it is advisable to complete this exercise first and then centralize as the next step. A common process/application can increase efficiency, deliver quick response times and reduce ambiguity among application end users.

Establish Change Management Procedures

The centralization exercise always involves change. Some job functions may be reduced, and some may be added. Change, by nature, is difficult to adapt to. The development of proper change management exercises, which will help the users navigate through this change, are extremely critical in this exercise. It is advisable to start this process early in the project to help in building consensus, reducing resistance and familiarizing the concept among the intended audience.

Establish Well-Set Governance Procedures

Set up streamlined procedures for creating and updating records along with proper SLAs for each activity. Ensure that appropriate checks are established in each stage and that an audit trail is maintained for all requests. Always keep a window open for emergency requests. Have a periodic monitoring process for cleansing and maintenance of all master data.

Always Look Out for Changes in the Business/ IT Landscape

One big concern of senior executives is how well a centralized model will respond to changing business needs and the ever-changing information technology landscape. The success of a centralized model in constantly delivering value is the ability for it to change as per changes in the business environment. Establishing a centralized service model is just the first step in the journey. A robust ecosystem to spot, analyze and implement changes to already existing processes will ensure that the model delivers value in the extended horizon.