



Top 3 steps to a successful ERP implementation for M&A in manufacturing - a project management point of view



The benefits of a merger and acquisition (M&A) can be great in various ways including cross-selling, synergy, cost savings etc. But often, the realization of the benefits can be subdued due to the absence of an effective implementation of the ERP business systems for the merged entity.

This white paper provides insights on the top three critical aspects that need to be resolved before implementing a common ERP system followed by a merger. While most of these aspects apply to all verticals, the focus of this analysis is on the manufacturing domain.

Background

Mergers and acquisitions (M&A) aren't easy. There are several ways it can go wrong, and IT business system integration is one of the biggest factors that can make an M&A a huge success or a terrible failure.

The strategic decision of which IT business system or ERP stays and which one retires is difficult. There are 3 possibilities of how the IT business system or ERP integration can take place during a merger:

1. The joint company follows the IT business system and processes of

one of the companies

2. The joint company follows the IT business system of one company but with business process changes to adapt to the merger
3. The joint company implements a new business system with a new set of processes

Of course the third possibility is the most extensive exercise. But sometimes it can prove effective when the two organizations are equal sized, and both do not have a robust and flexible business system to support the joint organization and its processes. But in the end, there

are certain challenges that all 3 types of system integrations face after an M&A. This white paper helps identify and review the top 3 steps that can lead to a successful implementation.

This whitepaper draws insights from a real world example where two manufacturing companies merged their global sales operations to enable complimentary sales, market expansion, and engineering and sales synergy. The merger followed the approach mentioned in the third point above, and implemented a new Oracle E-Business Suite ERP business system followed by a global design and country-wise deployment.



Step 1 – Convergence vs. divergence of business processes

While most of the processes should be common in an M&A, based on the nature of the merger, certain processes can be different for a valid reason. For example, if two organizations are merging their sales operations in one country, but their factories (present in other countries) are operating independently, then the process of integration with the factories would be different. Therefore, the first step in an M&A is to identify the processes that are converging, the ones that are diverging, and to ensure that the stakeholders reach a consensus.



Map the business processes in 3 categories

- **Common** – Processes followed by both companies. For e.g., both companies book a sales order.
- **Unique** – Process unique to one organization. For e.g., one company pays external agents whereas the other has internal sales staff.
- **New** – Identify new strategic or industry best practice process that's new to both companies but can bring value to the future organization.

Prepare a process list; and assign priority, owner, and date

Let's take some examples...

This is a typical share of common and co-existing processes as observed in a manufacturing merger. Unsurprisingly, the common processes are much larger in number, but this could vary from project to project and may also depend on the nature of the merger.

Converge or diverge

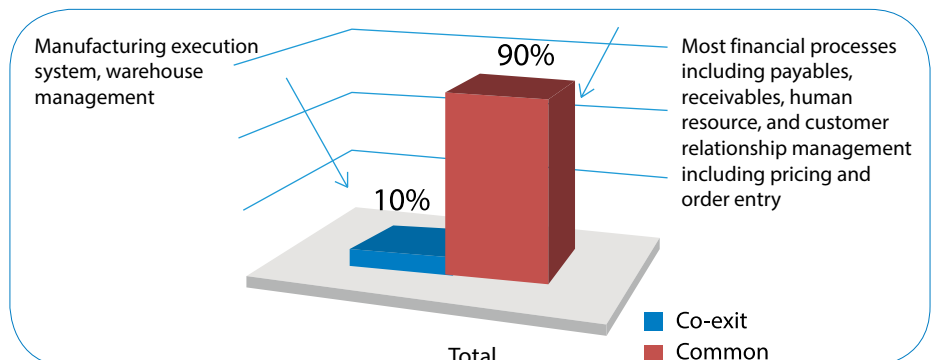
- **Convergence** – These are processes and functions that must be similar across both organizations. For e.g., pricing, quoting, order entry and booking, receivables, payables, and most financial and human resources functions. These processes need more time to finalize as all differences must be resolved.
- **Divergence** – Processes that could be different due to a lack of synergy between two departments / functions. For e.g., Shop Floor and Warehouse management can have diverging process in each plant/area and may not be converged due to the M&A.

Focus more on converging process; split diverging processes into groups

Gather requirements and to-be process design

- **Gather requirements** – Ensure all requirements for convergence processes are agreed to by both organizations, and the same for diverging processes do not have any impact elsewhere.
- **Fit-gap and to-be process design** – By now, it's more of a conventional ERP implementation to map the joint organization's processes and requirements to the ERP business system.

Design a solution that is simple and easy to adopt in order to assist the organization's change management



Tools and methods to achieve

The typical way to address this would be a series of process and gap review meetings with the business team leads – classifying process gaps into various categories and priorities and putting them in a requirement / issue tracker. The end result should be a conventional requirement fit-gap analysis based on a uniform set of requirements.

Business Area	Manager	Process	Sub-Process	Combined requirement/issue	Category	Current System	Process Improvement	Priority	Lead
PRODUCT	David	Process	Marketing	Common reporting process needed	Policy	Yes	Yes	Medium	
PRODUCT	Neil	SO / New sourcing	Sales Orders	Sales Order Defaults - search criteria codes/organization default from SO to SO header	Process control	Yes	Yes	Medium	La
PRODUCT	Neil	SO / New sourcing	Sales Orders	Customer Master Data - market	Static data	Yes	Yes	Medium	La
PRODUCT	Neil	SO / New sourcing	Sales Orders	Customer Master Data - SO to SO header	Static data	Yes	Yes	Medium	La
PRODUCT	Neil	SO / New sourcing	Sales Orders	Booking - condition codes	Process control	Yes	Yes	Medium	La
PRODUCT	Neil	SO / New sourcing	Sales Orders	While in address entered on the PO, enter the SO along with Site Name entry and associated fields - ie freight terms, FOB, shipment method, sales person	End to End process	Yes	Yes	Medium	

A sample list of requirement / issue categories would include:

- Policy decisions
- System gap
- Process control
- End-to-end process
- Reporting
- Static data



Do's

- Think outside the box and keep an open mind to adopt a better process followed by the partner
- Look for industry best practices instead of reengineering current process
- Involve system and business process specialists in the job rather than your best brains

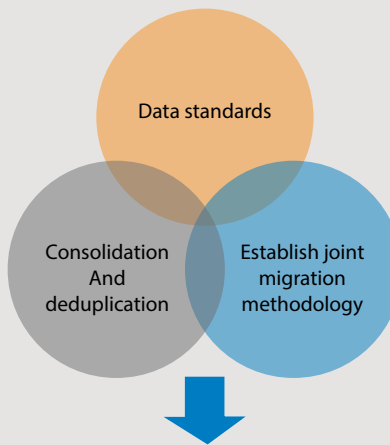


Don'ts

- Try to converge 100 percent of processes to the lowest level
- Spend too much time and effort to converge a complex but non-critical process (Often, 95 percent of effort is spent to obtain just 5 percent of benefits)

Step 2 – Master data (customers, suppliers, products) and data migration

The second step in an M&A implementation is the establishment of a strategy for master data migration. It is likely that the two companies deal with the same master data, and therefore direct migrations from both systems would end up creating duplicates. To avoid such a situation, it is advisable to establish data standards for master data, followed by consolidation and de-duplication, and finally prepare a migration methodology to support the migration process.



The illustration represents the two components that allow a joint organization to have a common set of transactions (sales orders, purchase orders, and work orders):

- Single set of customers and suppliers with a common set of financial and commercial attributes (e.g., sites, payment terms, pricing, credit limit)

- Single set of items (finished goods, subassemblies, and purchases)

One of the key drivers for any M&A is cross-selling. This means that both legacy organizations could be dealing with the same customer historically. For example, a bank buying a stock broker could sell its banking products to the stock broker's customers, while the broker can sign up the bank's customers for brokerage accounts. But once the merger takes place, the two individual identities should merge into one. The same applies to suppliers and product data as well. For instance, both companies sell and buy the same item with different codes in their legacy system, which must then be converted into a single item in order to enjoy the benefits of the M&A. And this can be done in 3 simple steps.

Steps to achieve a successful M&A

Step	Activities
Establish data standards	Identify the data structure that establishes the master data model, in addition to identification of fundamental fields that can identify master data uniquely. For e.g., VAT registration number, name, and postal code for the customer / supplier. For items, it is the primary attributes of the item and its hierarchical position in the product catalogue, or supplier part number (in case of buy items), UNSPSC codes etc.
Consolidation and deduplication	Once the data standards have been identified, the next step is to execute the consolidation and deduplication process. It involves extracting data from the respective legacy systems into a pre-specified template and identifying potential duplicates, followed by aligning each one's attributes and resolving differences. For e.g., two customers could identify as a single one by VAT registration number or DUNS number, but the payment terms negotiated by the two organizations are different. Or, it is possible that two items are the same in principal attributes, but they follow two different part numbers in their respective systems. If any master data management (MDM) system is in use, the de-duplication exercise can largely be automated by the use of any standard data deduplication program.
Establish joint migration methodology	Once the above steps are complete, rest of the migration falls into place easily, but with an extra bit of coordination between the two companies. Often this involves modification of the extracted transactional data – linking it to a different master data reference (E.g., a sales order for item 'A' may need to be migrated as a sales order for Item 'B'; if item 'B' is the standing item number in the new system due to the deduplication exercise) – which involves creation of a migration plan to establish where in the migration process the data was transformed (E.g., in the source system, middle-layer, or target system).

Step 3 – Establish P&L reporting methodology

Though the two companies have merged, the reporting requirements could still be challenging and manifold. For instance, while a single set of reporting is needed for legal reporting, internal management reporting needs to be segregated for each company and their respective product groups. But the balance sheet (B/S)

and P&L analysis for the merger will be incomplete unless the ERP business system is able to handle this kind of requirement, and attribute the assets, liabilities, revenue, and the cost split to the correct business entity or product segment.

Earlier in this case study, we mentioned that we used a custom report to split the external AR between product groups of respective entities, and used mass allocation process for splitting

revenue and cost allocation based on certain predefined percentages. This was done solely for internal management reporting purposes, and separate balancing segments were created to be used exclusively for reporting purposes. This is an essential element in the M&A process as the individual entities still need to understand their internal margin for effectively handling pricing etc.

Example – sample External AR analysis and split

Total external AR balance	200 MEUR
Attributable balance to individual product groups:	PG1 – 120 MEUR PG2 – 20 MEUR PG3 – 20 MEUR
Non-attributable balance to individual product groups	Common PG – 40 MEUR
Non-attributable balance can be split again on proportionate basis of individual product group	PG1 – 30 MEUR PG2 – 5 MEUR PG3 – 5 MEUR



Conclusion

There are several other elements such as organizational change management, policy decisions, legal merger, taxation, and management of trading partners that also affect the merger and the IT project that follows it. The undercurrent risk of each of these elements is the risk of the 'unknown'. However, the success of the project lies in knowing the unknown at an early stage – while executing the above 3 steps as they answer fundamental questions and steer the project in the right direction.



About the Authors



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