
IT Strategy

Case Study of a Recent Client Experience

ATKEARNEY

Today's discussion...

- ◆ **Background of Company**
- ◆ **Company IT Overview**
- ◆ **Cause for Action**
- ◆ **IT Strategy Approach**
- ◆ **Application Architecture**
- ◆ **Technical Architecture**
- ◆ **Establish the IT Program Office**
- ◆ **Organizational Effectiveness and IT Alignment**
- ◆ **Summary**



Background of company

Company A announced their intended merger with Company B in 1999

Company A

- ◆ Began in 1909 as a partnership between an innovative chemist and a businessman
- ◆ Pioneering work in leather tanning
- ◆ Best known for expertise in acrylic chemistry
- ◆ Essential component to detergents, diapers, cell phones, industrial coatings, and more
- ◆ 50 manufacturing, research, and technical facilities worldwide
- ◆ Sales in 100 countries, totaling \$4 billion annually

Company B

- ◆ 1848, founding
- ◆ Largest and most recognized business for a particular consumer product
- ◆ Major supplier of basic inorganic chemicals derived from salt
- ◆ Essential ingredients in CDs, newspapers, magnetic tapes, sports equipment, and more
- ◆ 36 mining and processing facilities, 68 chemical manufacturing, research, and technical facilities worldwide
- ◆ Sales total \$2.5 billion annually

The focus of the integration was to quickly achieve operational synergies while combining the organizations to support top line revenue growth

Achieve Business Value Goals as Quickly as Possible

- ◆ Achieve \$200 million of savings within 12-18 months (running rate by 2001)
 - Ensure customer retention
 - Corporate Center rationalization
 - Administrative overhead reduction
 - Sourcing/Procurement savings
 - Product line and operations rationalization
 - Manufacturing productivity and supply chain improvements
 - Reduction in technology costs

- Drive the short-term value
- Exceed the market's expectations

Integrate the Organizations as Seamlessly as Possible

- ◆ Develop and communicate a shared strategic agenda
- ◆ Define organization structures, key business processes and technology platform/architecture
- ◆ Select leaders and staff positions
- ◆ Develop metrics and budgets
- ◆ Integrate the business

- Integrate day-to-day operations
- Position for the future growth

A.T. Kearney was asked to structure, drive and manage the entire integration process for what would become one of the largest specialty chemical companies

While the potential source of the synergies were somewhat clear, smooth and timely integration of the two companies was less assured

North American Region Operations
60% of sales
60 manufacturing facilities
230 distribution sites⁽¹⁾

European Region Operations:
30% of sales
40 manufacturing facilities
60 distribution sites



Latin America and Asia-Pacific Region Operations:
10% of sales
20 manufacturing facilities
10 distribution sites

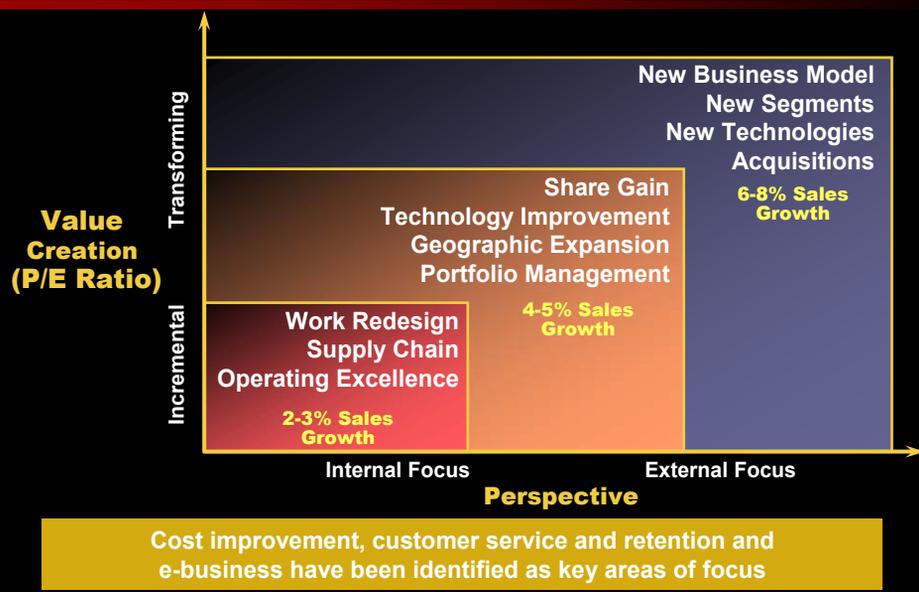
Challenges

- ◆ Some manufacturing processes and technologies were incompatible between the two companies
- ◆ Combining two companies with both direct product overlap
- ◆ Acquiring company was more of a "intermediates producer" and the acquired company was more of a "formulator"
- ◆ Significant facilities consolidation opportunities
- ◆ Distribution consolidation and improvement required changing the business model and the mindset
 - Standard lead times
 - Standard service levels
- ◆ Significant customer overlap
- ◆ Significant EH&S issues needed to be addressed, competing away scarce capital resources

After an accelerated integration program, the merger was deemed a success by the CEO as well as the analyst community

- ◆ “By the end of 3Q, the new company had achieved cost reductions of \$100MM on an annualized basis, three months ahead of schedule.”
— *Morgan Stanley Dean Witter*
- ◆ “Already, the company has achieved a \$100MM annual run rate in cost savings ahead of schedule...” — *Janney Montgomery Scott*
- ◆ “The integration process is running smoothly and in fact better than expected achieving a \$100 MM lower run rate...”
— *J.P. Morgan Securities*
- ◆ “The integration efforts continue to track ahead of plan...”
— *Deutsche Banc Alex Brown*
- ◆ “Considering the steep increase in raw material costs, the new company was able to meet expectations with its rapid integration of the acquired company’s operations...”
— *Brown Brothers Harriman*

Following the integration, the CEO’s Agenda is to double the rate of growth while maintaining high levels of profitability



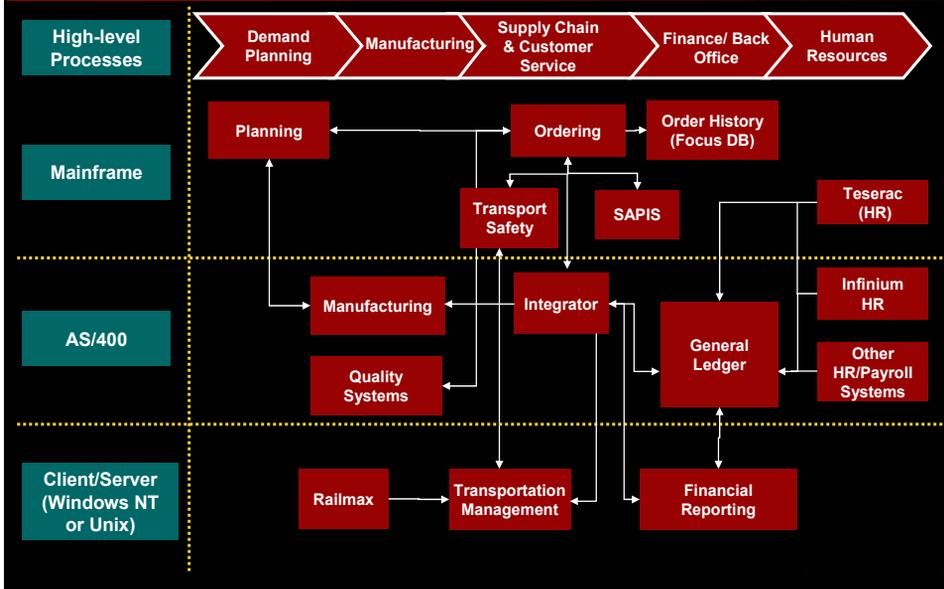
NewCo's business strategy will place additional demands on the entire organization

Strategic Imperative	Target Capabilities
Growth / Agility	<ul style="list-style-type: none">◆ Rapid assimilation of acquisitions with limited additional financial staff◆ Global shared services◆ IT provides a strategic advantage in support of growth initiatives
Cost Improvement	<ul style="list-style-type: none">◆ Global processes and metrics◆ Interim information on sales, profitability and cost of operation◆ Automation of routine processes and transactions◆ Financial staff is aligned with the business
Customer Service & Retention	<ul style="list-style-type: none">◆ Continuous launch of service offerings that cannot be easily matched by competitors◆ Quality built into an automated processes◆ Humans manage the relationship not transactions
e-Business	<ul style="list-style-type: none">◆ Integrated supply chain network (S&OP process) across multiple enterprises◆ Inventory commitment using production, sales and balances◆ Ability to reach customers globally without a local presence



Company IT Overview

Current transactional systems are complex, reside on multiple platforms and are integrated through a network of interfaces

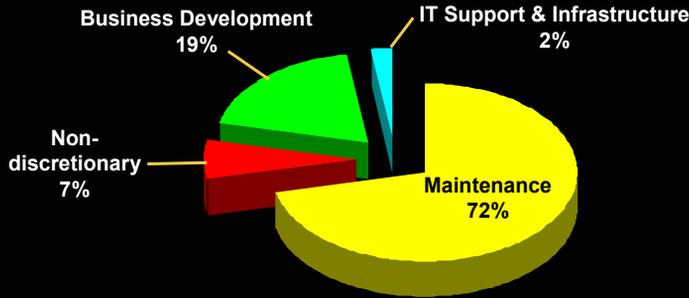


Intrinsic manual processes result in a high cost effort that cannot support the speed of today's e-business environment

Strategic Imperative	Observed Key Theme
Growth / Agility	<ul style="list-style-type: none"> Lack of automation prohibits additional workforce leverage Systems are running out of physical capacity Incremental improvement mindset limits strategic development
Cost Improvement	<ul style="list-style-type: none"> Focus is on reconciling balances and correcting errors and not root cause error prevention Processes (especially billing) are manually intensive Global processes are desirable but difficult to implement consistently Transaction systems are becoming increasingly difficult to maintain
Customer Service and Retention	<ul style="list-style-type: none"> Special customer requirements and services (e.g.SOMI) are implemented but at a relatively high cost Inspection of errors protects/ masks the customer from errors inherent in the system
e-Business	<ul style="list-style-type: none"> Manual intervention presents a barrier Business information is not easily assimilated Quality of global customer information is suspect

Roughly 72% of the IT budget is spent on maintaining current service levels and infrastructure

Percent of IT Spending by Category



To maximize business value, we need to shift the spending from maintenance to business development and long term IT support and infrastructure

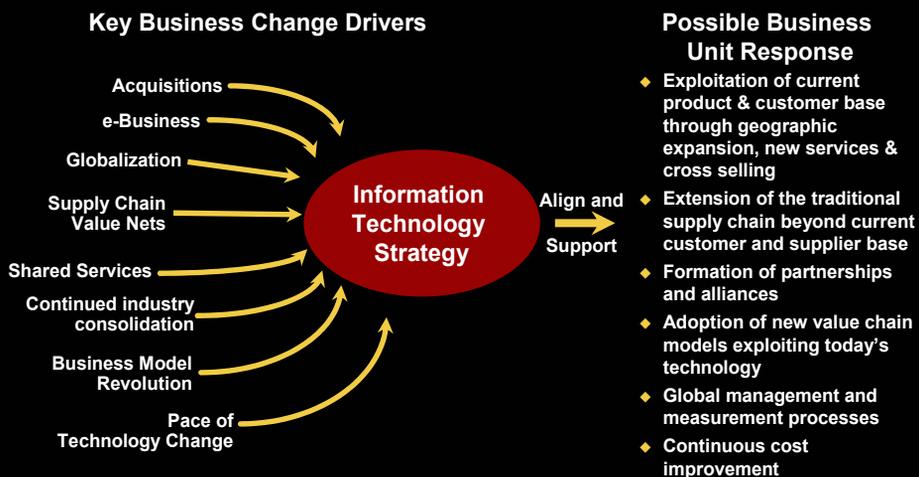
A future vision of the enterprise architecture must seamlessly and efficiently integrate core business processes in an e-business environment

	Functions	Current	Proposed																		
Processes of Strategic Value and Competitive Advantage	<table border="1"> <tr> <td>Planning</td> <td>Optimization</td> </tr> <tr> <td>ISM</td> <td>CRM</td> </tr> </table>	Planning	Optimization	ISM	CRM	Limited Point Source Solutions	Customer Facing e-Business Solutions														
Planning	Optimization																				
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Operations and Transaction Processes (Low Cost)	<table border="1"> <tr> <td>Procurement Logistics</td> <td>Manufacturing Operations</td> </tr> <tr> <td>• Order</td> <td>• A/P</td> </tr> <tr> <td>• Billing</td> <td>• G/L</td> </tr> <tr> <td>• A/R</td> <td>• Reporting</td> </tr> <tr> <td colspan="2">HR / Payroll</td> </tr> </table>	Procurement Logistics	Manufacturing Operations	• Order	• A/P	• Billing	• G/L	• A/R	• Reporting	HR / Payroll		Point Source Best of Breed Suite or Legacy Systems	<table border="1"> <tr> <td colspan="4">PRISM / Supply Chain Systems</td> </tr> <tr> <td>SAP</td> <td>JDE</td> <td>PeopleSoft</td> <td>Oracle</td> </tr> </table>	PRISM / Supply Chain Systems				SAP	JDE	PeopleSoft	Oracle
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Infrastructure		Standardized, Low Cost, Mixed after merger																			



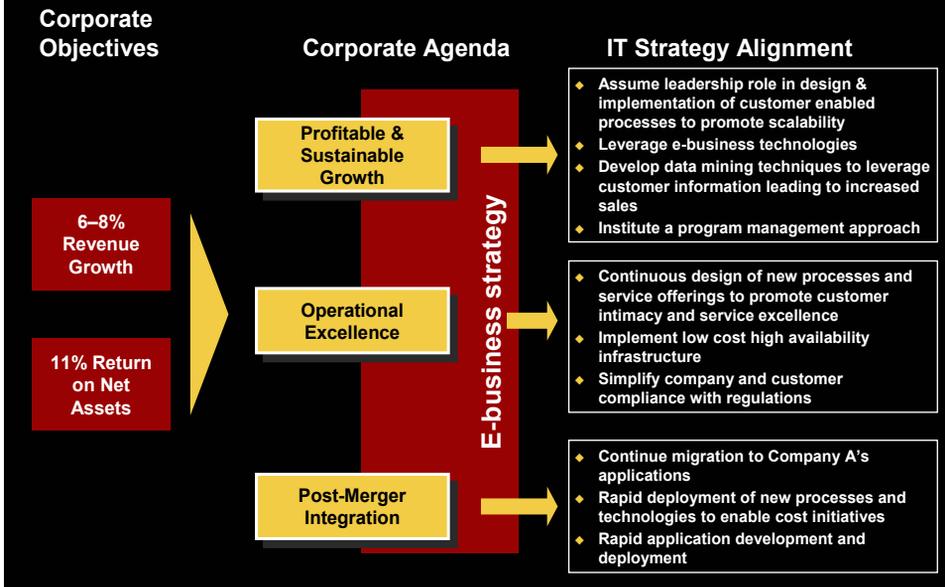
Cause for Action

An updated IT strategy is necessary to align the organization and its service offerings to business unit requirements and operating models

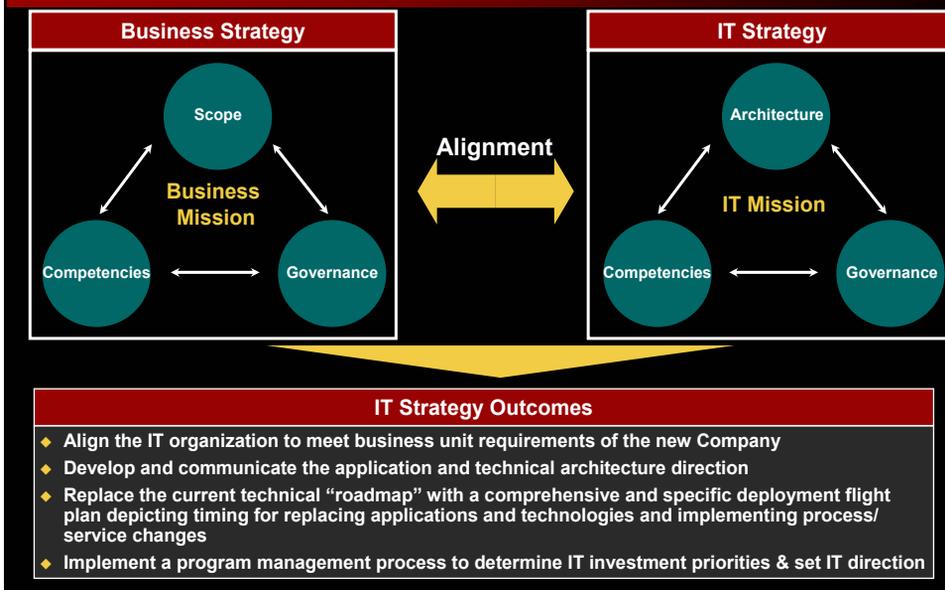


Information technology must reinvent itself to develop capabilities that deliver substantial business value at the pace of today's business environment

Linking the strategy to the CEO agenda reinforces IT's commitment to be a high value service partner



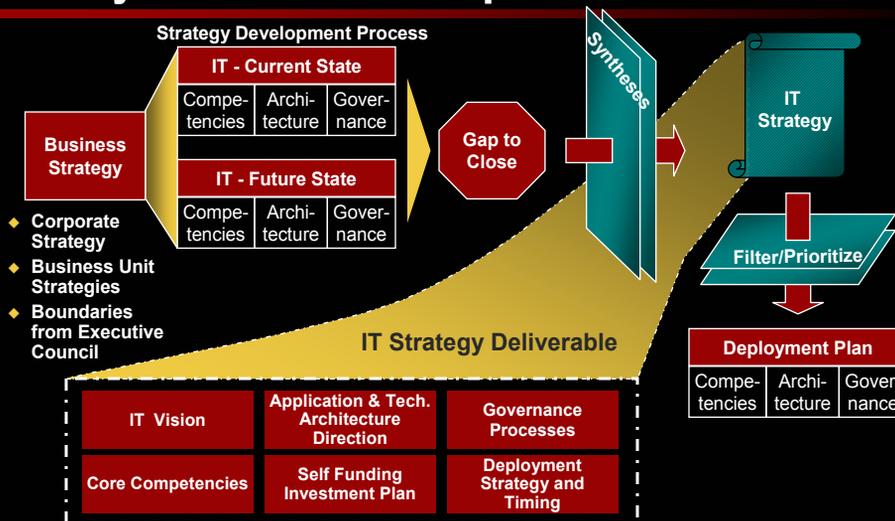
The IT strategy aligns with business strategies to define matching priorities, complementary capabilities, and compatible organization dynamics





IT Strategy Approach

The IT Strategy is comprised of an IT vision, strategy and deployment plan that will enable rapid delivery of cost effective IT products and services

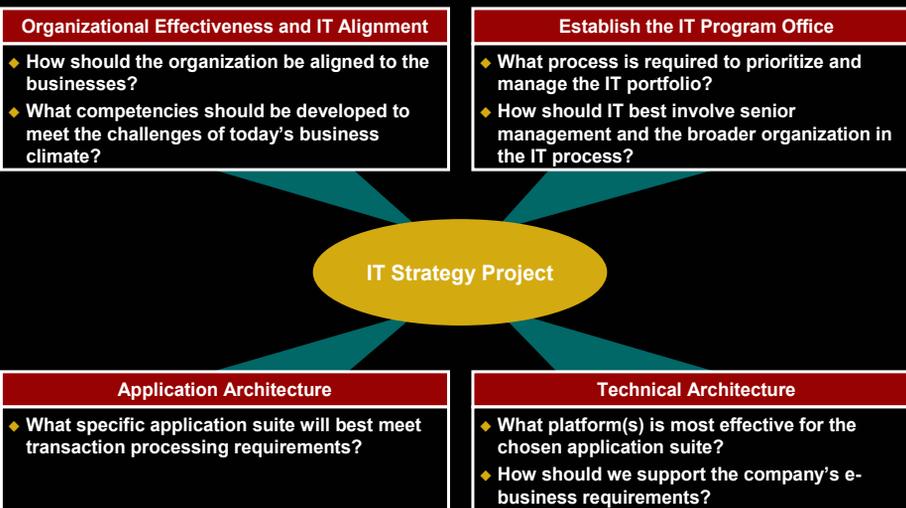


A new CIO was brought in to champion the effort while becoming the IT Change Agent

A set of guiding principles will allow us to “rethink” the current way of doing business as we progress our strategy development process

- ◆ The applications and technical infrastructure must be aligned with business strategies and create substantial shareholder value
 - IT will focus its energy on competencies that are results driven and add significant business value
 - Our goal should be to deliver project results in half the time and half the cost (time to market is essential)
 - IT budget will be owned and driven by the business for discretionary projects
- ◆ The organization will adopt a virtual and collaborative approach to address business problems
- ◆ The future state will drive our strategy design; how we do things today may influence our future — but there are no sacred cows
- ◆ We must provide significant growth opportunities for our people to attract and retain a highly skilled and motivated staff
- ◆ We will share clear, unified communications at every level led by IT Leadership Team

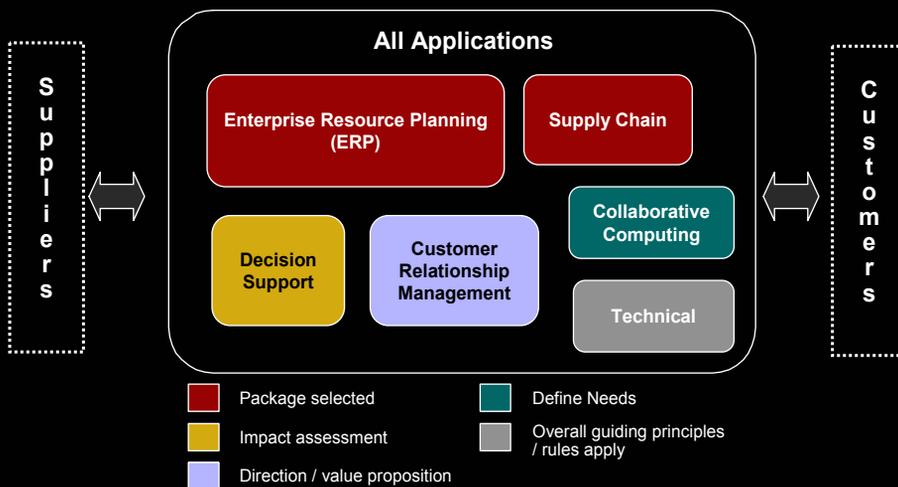
Four parallel workstreams will contribute to development of the IT vision, strategy and deployment plan



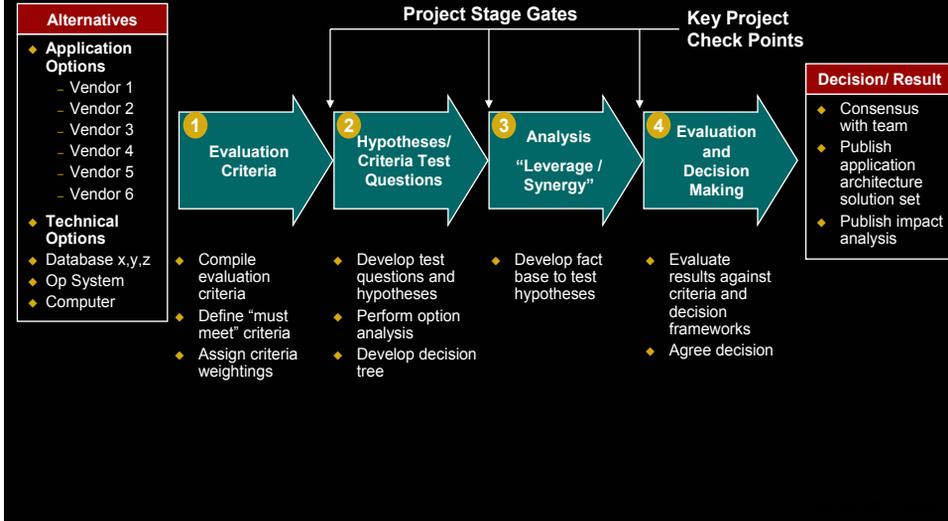


Application Architecture

The applications architecture will result in an ERP “backbone” vendor selection and provide guidance and direction for all other applications



The application architecture team is following a structured analysis process that test vendor solutions against our decision criteria



The vendors will be evaluated against four pre-defined dimensions, each of which will be weighted by business stakeholders

- Strategic**
- ◆ Growth, agility
 - ◆ Customer service and retention
 - ◆ E-business
 - ◆ Cost containment
 - ◆ Vendor and product strategy

- Functional Requirements**
- ◆ Supports process manufacturing
 - ◆ Order to cash
 - ◆ Financial Reporting
 - ◆ Processing sequence
 - ◆ Ease of use

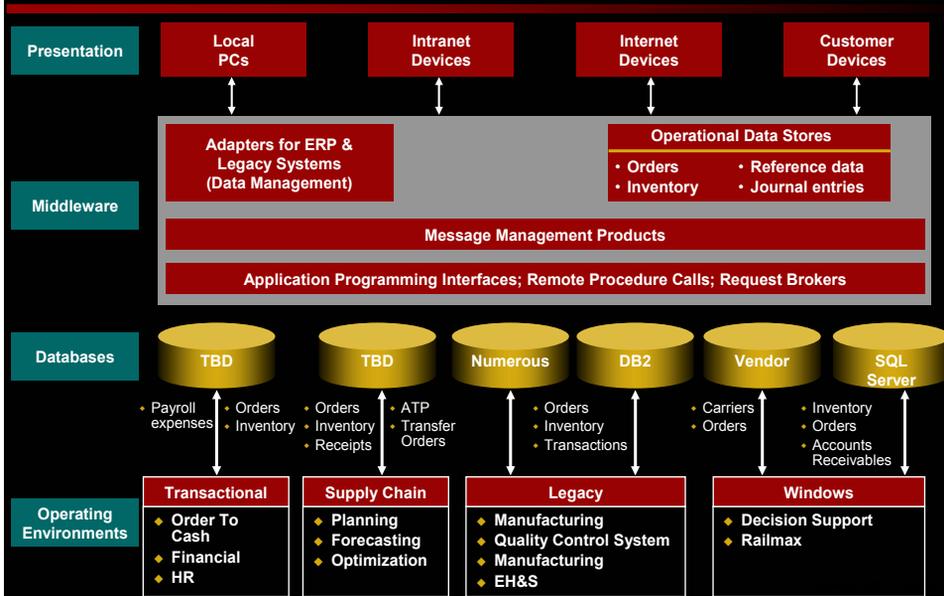
- Technical Environment**
- ◆ Technical architecture
 - ◆ Administration services
 - ◆ Interfaces
 - ◆ Documentation and vendor support

- Investment / Viability**
- ◆ Software and hardware costs
 - ◆ Bolt-on and interfaces costs
 - ◆ Implementation and conversion costs
 - ◆ Training costs
 - ◆ Financial status
 - ◆ Organizational strength
 - ◆ Vendor commitment
 - ◆ Embedded base / References
 - ◆ Market position
 - ◆ Customer support
 - ◆ Training
 - ◆ Cultural fit
 - ◆ Implementation resources
 - ◆ Implementation Risk



Technical Architecture

The technical architecture workstream will develop a comprehensive environment to take advantage of new technologies and value added applications...



... to maximize the information exchange internally and externally

Key Issues

- ◆ What is the most viable technical platform(s) for the new Application portfolio?
- ◆ What is the optimal middleware solution: ERP vendor-supplied, third party or both?
- ◆ How much do ERP and middleware solutions minimize the effort of developing / maintaining interfaces?
- ◆ Does the new technical direction adequately address standardization of data across the enterprise?
- ◆ Will the new technical direction align with existing decision support and emerging e-business strategies?
- ◆ What impact do these architecture decisions have on current technical skills and competencies?
- ◆ What new developer tools and platforms will be required to support this technical strategy?

Deliverables

ERP Technical Architecture Roadmap

- ◆ Outlines the hardware operating system and database platform selected for implementing ERP solutions

Middleware Tool Strategy

- ◆ Defines the conceptual middleware solution and details the middleware product(s) required to implement the strategy

Decision Support Strategy

- ◆ Defines the technical solution required to satisfy business requirements and leverage new related technologies and the company's IT strategy

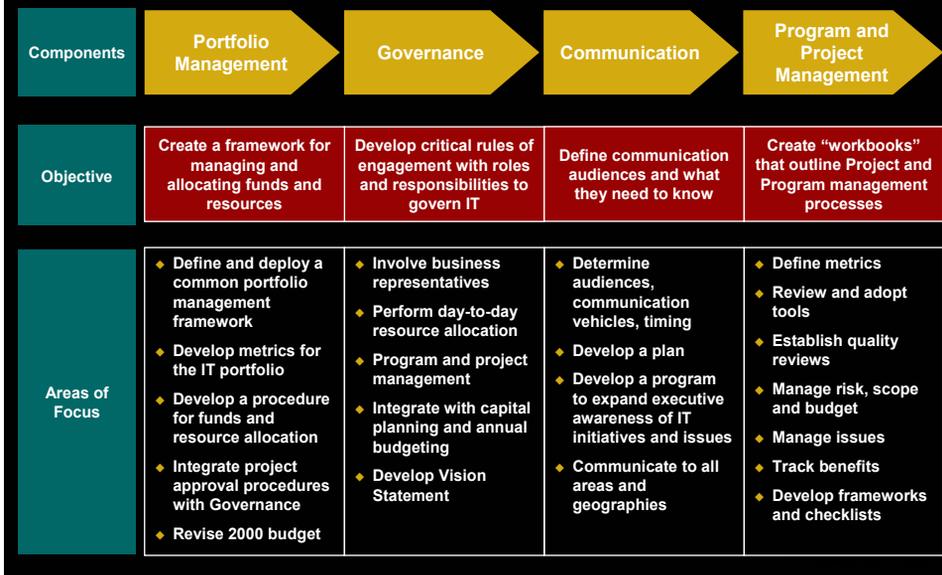
Cost Saving Opportunities

- ◆ Details cost savings in IT infrastructure costs and defines the impact on the structure of IT Infrastructure and Support



Establish the IT Program Office

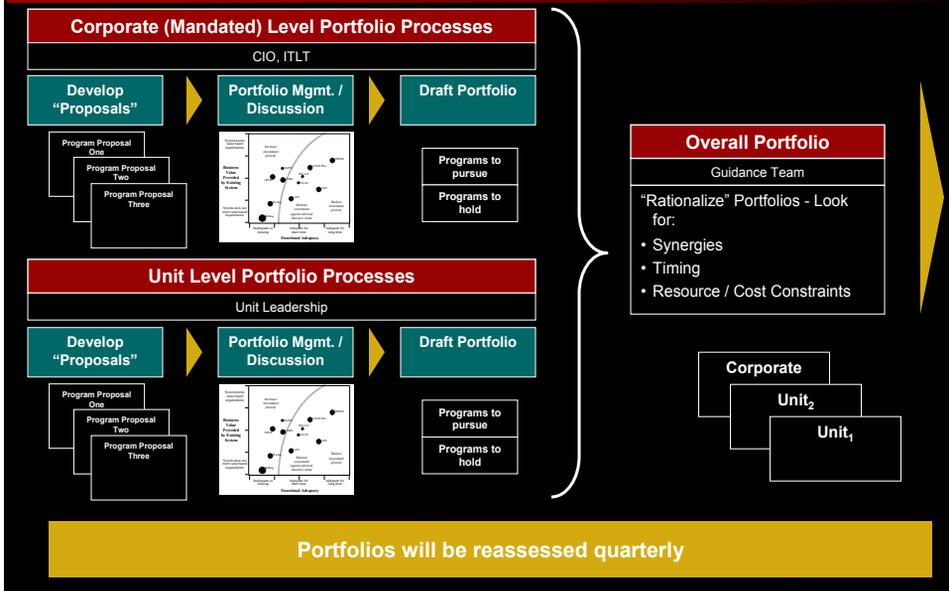
The program office workstream will establish processes for portfolio management, governance, communications and program/project management



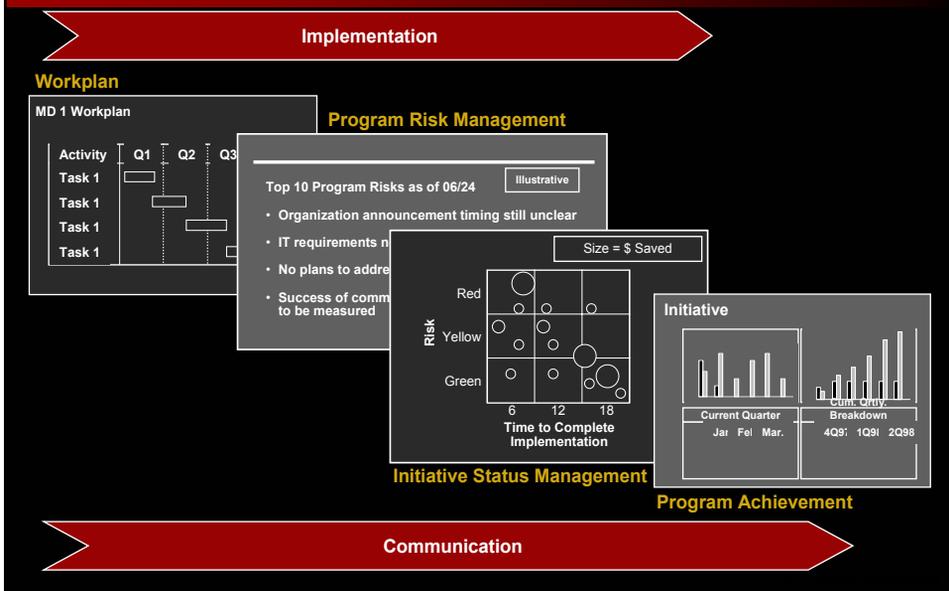
The portfolio management process starts with the overall corporate goals translating into portfolios of programs



Then the portfolios are assessed by corporate, unit and guidance team



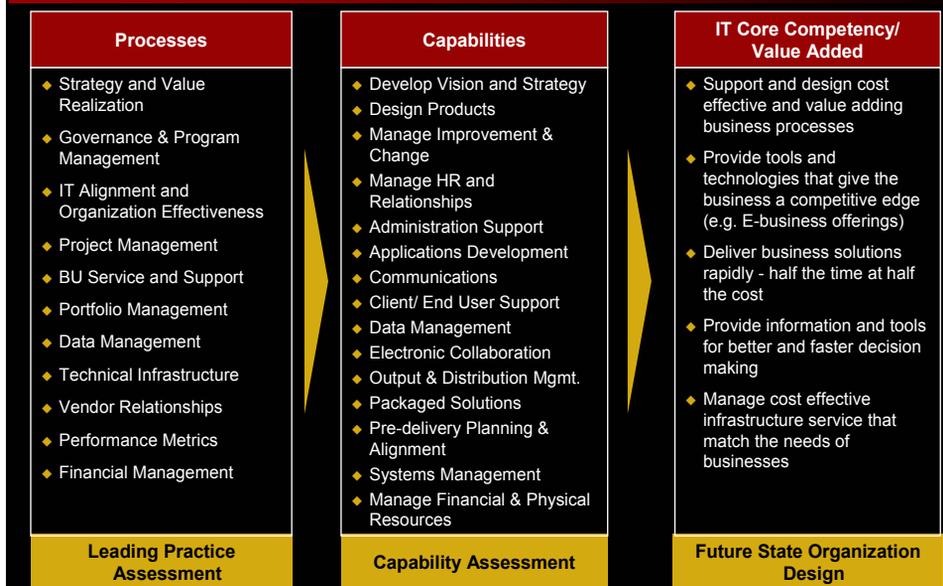
Once portfolio decisions are made, detailed program planning and tracking processes will follow



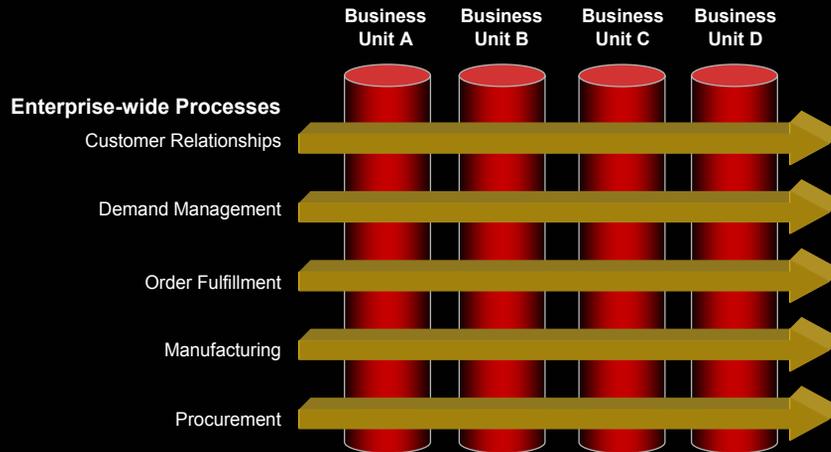


Organizational Effectiveness and IT Alignment

A value-based organization is designed around core competencies, which consist of processes and capabilities that deliver value to the business



The IT organization model represents the means for delivering services and solutions



Summary

Implementation of the IT plan will provide substantial bottom line benefits while enabling the company to achieve its strategic imperatives

Strategic Imperative	Tangible Benefits	Intangible Benefits
Growth/Agility	<ul style="list-style-type: none"> ◆ Increase revenue from existing and new customers ◆ Quicker realization of Return on Investment for future acquisitions 	<ul style="list-style-type: none"> ◆ Lower incremental cost to serve the next customer ◆ Product releases will increase scalability and technical innovation
Cost Improvement	<ul style="list-style-type: none"> ◆ Reduce functional and business costs ◆ Decrease IT support costs ◆ Increase accuracy of invoices 	<ul style="list-style-type: none"> ◆ Implement Class A MRP II practices more rapidly and with reduced infrastructure costs
Customer Service and Retention	<ul style="list-style-type: none"> ◆ Improve customer retention <ul style="list-style-type: none"> — Customized service — Accurate and up-to-date order information — Decrease order cycle times 	<ul style="list-style-type: none"> ◆ Access to global customer information for more effective pricing ◆ Support an integrated Customer Relationship Management strategy
E-business	<ul style="list-style-type: none"> ◆ Decrease administration costs due to self service nature of web-based systems 	<ul style="list-style-type: none"> ◆ Provide an infrastructure for deploying the company's e-business strategy ◆ Improve access to e-communities and global customers