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HOW INNOVATORS SUCCEED

From the Editor

BY COLIN RICE

Innovation isn't all about who can create the newest product in the shortest amount of time.

Can you continually improve your business without knowing where you stand today?

Comparing the actions and accomplishments of one person to another is a universally accepted, instinctive practice. Children compare toys and exchange stories of their latest adventures, while professional sports analysts compare the statistics and achievements of current players to those of already recognized immortals to determine their coveted place in the record books. It is no surprise that this practice continues in the business world. For years, technology start-ups to Fortune 25 companies have engaged in "benchmarking," or the process in which organizations evaluate various aspects of their processes in relation to best practices, primarily within their business sector. Identifying and understanding these industry best practices, better positions the company to compete successfully amongst their peers through innovation and change management.

Although no one standard practice for benchmarking is universally accepted and applied, companies can agree on several primary functions of benchmarking, including:

- Acceptance of new methods and processes
- Ability to understand competitor successes and failures
- Enables organizations to create sustainable competitive advantages from learned best practices
- Generation of new ideas and product innovations
- Create objective business cases which utilize industry recognized data points to best forecast results

When applied to existing thinking and established processes, business cases utilizing benchmarking data can serve as a catalyst for positive change. Although not all benchmarks translate into defined, expected results, a collection of recognized benchmarks carry a powerful indication of "what worked and what didn't."

Without the knowledge of their industry peers' actions, successes, and failures, companies will lose sight of how their practices and processes can drive future business success. Business case benchmarks are not simply, "What did they do?," "What was the result?," and "How can we emulate that?." These benchmarks provide thought-provoking data points to which business professionals can measure their current practices and results, using objective business case development and tracking tools, against the results of their competitors to enable future innovation and thought leadership.

Do you know where your business stands?



New Findings: Reducing the Risk and Increasing the ROI of ERP Implementations

“A detailed risk analysis on the forecasted benefits of an ERP is critical to achieve positive operational and economic results,” says Gustavo Benitez, a consultant with Deloitte and former IT manager at Vitro, a glass manufacturing company.

Today, when either investing in a new ERP system, or upgrading an existing system, most companies prepare a business case to assess the potential benefits and costs of such a project. A recent Glomark-Governan research study, conducted in February 2008, indicates that 85% of the ERP business cases prepared today do not include an objective risk analysis. In such an analysis, it is imperative that companies not only weigh the economic costs and benefits, but also identify which risk factors may potentially lead to a project’s economic failure.

Forecasting annual economic benefits for an ERP implementation can be challenging. While a myriad of benchmarks are readily available, the ERP research studies available today present such a wide range of results that many companies struggle to identify which values are most realistic and attainable. For example, one renowned research organization indicates that inventory levels can be reduced up to 24% with an ERP implementa-

tion, while another research firm states that inventory levels could potentially be reduced as much as 75%.

This discrepancy in potential outcomes can not be ignored when a company’s financial health could be in question. To understand why these variances in benchmarking data exist, executives must understand that ERP applications require change management (changes in business processes, resultant training required to facilitate those changes, etc.), often of great magnitude. Even an expected reduction in employees can, if not implemented correctly, drive the expected operational and economic benefits down a path to economic disaster.

“In effectively implementing an ERP system, it is imperative that a company trains its systems users, and understands the process changes necessary to achieve their desired business results,” says Olivier Dubious, Systems Director for ICR ChemS, a European manufacturing company. “A lack of training and thorough understanding of the business process changes needed,

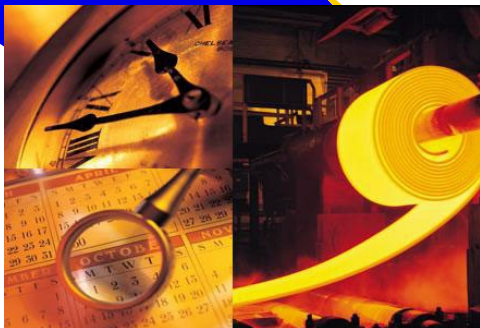
would lead the ERP implementation process down a path to failure,” says Dubious.

Another issue that plagues many manufacturing companies is the inability to utilize the full range of functionality available in their chosen ERP system. The Glomark-Governan ERP Research Study identified that, on average, companies use less than 60% of the features available in their ERP systems. If the business case prepared prior to implementation assumes that all or most of the ERP features will be utilized, the economic projections will not be achieved, as the business case did not account for those features and associated benefits not used and realized, respectively.

The ERP Research Study also found that the range of possible improvements achieved with an ERP implementation vary considerably; and the range between worst and best case results in ERP benchmarks is wider than most people realized in the past.

To illustrate, Glomark-Governan research identified the following examples:

Benchmark	Previous Belief	New Findings
Decrease in Inventory Level	From 10% to 25%	From 4% to 75%
Reduction in Manufacturing Lead Times	From 20% to 50%	From 12% to 63%



New Findings: Continued

Therefore, careful consideration and detailed assessment must be applied when selecting benchmarks; as they can easily mislead executives with regard to the expected economic outcome of an ERP project.

Relying solely on benchmarks from research studies is clearly not sufficient to make an accurate and objective assessment of the ROI for an ERP project. There are, however, some models that can assist companies in maximizing the probability of an ERP project's success.

Comprehensive Risk Assessment in ERP Initiatives

There are several risk analysis methods available, but only a Monte Carlo simulation can objectively assess the economic risk that a large investment initiative (e.g. an ERP implementation) can potentially pose. A Monte Carlo simulation generates a statistical analysis that considers the sensitivity of assumptions, and identifies the probability of achieving the anticipated benefits and financial performance being forecasted in a business case. A Monte Carlo simulation helps companies make more objective best, most likely, and worst case estimates, that fall between a narrowed, more probable spread. Focusing upon the potential results that fall within a narrower spectrum (e.g. a +2 Sigma variance) will help a company pinpoint those benefits which require the most attention and monitoring to ensure success.

The following graph shows an actual example of what could happen to the impact on cumulative cash flow (CCF) for an \$110 million company implementing an ERP system; and how each benefit can

affect CCF if the estimate falls between the best and worst case range:

negatively impact the company's bottom line. Conducting this analysis prior to an ERP implementation provides more accurate post-

implementation expectations, in addition to determining which assumptions and benefits should be tracked with KPIs to ensure the most positive impact on the company's finances.

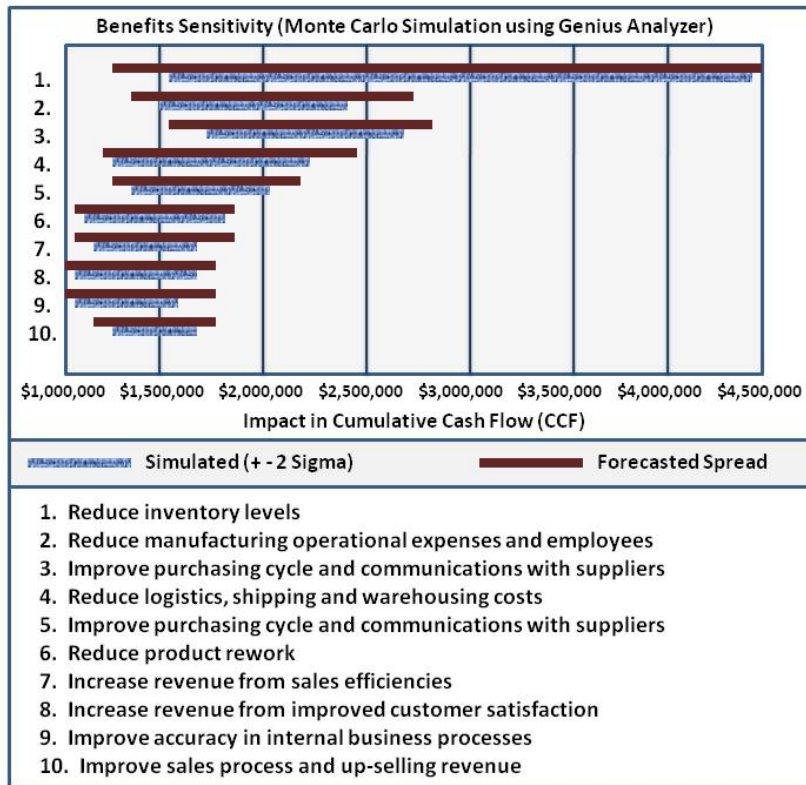
Research Findings:

While most ERP initiatives generate positive operational and financial results for manufacturing companies, not all benefits and benchmarks identified by research firms apply to every scenario.

The Glomark-Governan ERP Research Study identified that the range of possible improvements achieved from an ERP implementation or initiative, do in fact vary considerably from industry to industry; and that the discrepancies between available benchmarks is much wider than most people ever realized in the past.

Economic risk analyses are imperative for identifying those assumptions and benefits that truly minimize risk, and therefore increase the accuracy of the expected ROI for any large investment initiative.

To request a copy of the Glomark-Governan ERP Research Study, please contact the Regional Director near you.



In this example, the benefit of inventory reduction ranges from an expected impact on CCF of \$1.5 to \$4.5 million. After running a Monte Carlo simulation, the magnitude of the actual ERP benefits for this \$110 million manufacturing company were much different than the values forecasted using simple benchmarking data.

“A detailed risk analysis on the forecasted benefits of an ERP is critical to achieve positive operational and economic results,” says Gustavo Benitez, a consultant with Deloitte and former IT manager at Vitro, a glass manufacturing company.

This type of economic risk analysis helps an enterprise to not only identify the largest economic benefits, but also to identify those benefits that have the highest level of uncertainty, which may

The Economics of IT

With much at stake in major technology deployments, CIOs and finance executives must work together closely.

“IT governance must go beyond Sarbanes-Oxley,” Melendez says. “It should include guidelines and processes that ensure IT projects and assets produce the greatest ROI [return on investment]” and a positive impact on a company’s profitability, he says.

In an recent feature article published in CMP’s *Business Innovation*, Glomark-Governan CEO Ruben Melendez shared his perspective on the relationship between Finance and IT with editor Bob Violino:

With technology playing such a significant role in business operations — and IT projects in some cases costing millions of dollars — it makes sense for the finance department to have a big role in deciding which IT investments will be approved. In fact, IT and finance have long had a working relationship, and in lots of organizations the top IT executive reports to the CFO.

But in recent years it has become even more imperative that the two disciplines work closely together to meet corporate goals. One reason for the trend is the emergence of government regulations such as the Sarbanes-Oxley Act. Another is the increasing reliance on IT **governance programs**, which help organizations decide where to invest their IT dollars, track the progress of those investments over time, and prioritize IT initiatives based on strategic business goals.

And given the high stakes of technology deployments from an economic standpoint, it’s a good risk management practice to have finance involved in the planning of IT initiatives.

“Major IT projects have a considerable economic impact on corporations and nonprofit organizations,” says Ruben Melendez, president and CEO of Glomark-Governan, a consulting firm that helps organizations forecast and track the value of technology investments. “If the potential impact on cash flow is not carefully forecasted and assessed prior to implementation, the project [might] fail.”

While IT professionals are experts in technology and its implementation, they often lack the skills necessary to perform detailed financial assessments, Melendez says. “Conversely, finance professionals are skilled in performing cost-benefit and cash-flow analyses, but often overlook or don’t understand the technology and operational effects of an IT project,” he says. For this reason, IT managers should invite internal — and in some cases external — financial analysts to participate in and review their business cases before launching a project, Melendez says.

In fact, many IT undertakings fail because of economic reasons. “CIOs and CFOs pull the plug on IT projects when they see that the project is incurring considerably higher costs than expected” and the benefits are not realized within the expected time frame, Melendez says.

Finance executives such as the CFO should play a significant role in helping to create an IT governance program. Governance provides the guidelines and accountability to hold managers and their staff responsible for following internal rules set by finance and accounting, Melendez says. “This method of management ensures that em-

ployees (e.g., IT staff) maintain their projects, assets and budgets with the best interest of the shareholders in mind,” he says.

Clearly, the threat of fines from lack of compliance with government and industry regulations has been a huge driver of tighter controls and closer ties between IT and finance. But governance isn’t just about being compliant. “IT governance must go beyond Sarbanes-Oxley,” Melendez says. “It should include guidelines and processes that ensure IT projects and assets produce the greatest ROI [return on investment]” and a positive impact on a company’s profitability, he says.





Glomark-Governan

Headquarters:

6631 Commerce Parkway

Suite R

Dublin, Ohio 43017

Phone: 614-761-2400

E-mail: c.rice@governan.com

Visit www.glomark.com to locate the Glomark-Governan office near you.

Glomark-Governan is committed to helping companies and organizations around the world by providing them with the methodology, training, consulting, benchmarking research, and software tools necessary to assess, communicate and measure the economic value of investments in technology and services initiatives.

Glomark-Governan has enhanced and refined its *Economic Value Creation™* (EVC™) methodology for more than a decade, bringing to market a proven, complete solution that allows companies to justify their solutions' value, define operational and performance metrics, assess economic risk, and quickly create project-specific business cases.

"Economic Value Creation. Redefined."

Other News From Glomark-Governan

- Glomark-Governan has recently welcomed three new members to its team: Carlos De Bunes and Rodrigo Ramos, assigned to the roles of EVC Consultants, will be responsible for supporting the expansion of business case development and template generation in the Glomark-Governan Spain and Glomark-Governan Mexico offices, respectively. In addition, Nuvia Carrillo, Administrative and Research Assistant, will support current and future benchmarking research initiatives in the U.S..

- Glomark-Governan is pleased to announce its recent partnership with Informetron Corporation, a consultancy that provides marketing, sales, and business development expertise for high-technology companies. Bruce Froehlich, President of Informetron, will spearhead ef-

orts to funnel Glomark-Governan's products and services through Informetron's extensive sales channels.



- Extending their success from 2007, Glomark-Governan offices around the world have secured multiple orders in the first quarter of 2008 from major buyers and vendors of

technology, including key orders from the IMSS (Mexican Social Security Institute) in Mexico, Microsoft Dynamics in Spain, and Siemens USA.

- Glomark-Governan Italy managers, Antonio Piroso and Wassim Al Khayat, have recently secured a business case order with a utilities company in Italy. This consulting project marks the beginning of the now "locally available services" from Glomark-Governan in Italy.