Crawl, Walk, Run: Transforming Legacy Systems to Build Enterprise Value

MARK FASOLD
IMAP USA (FRG)
mark.fasold@imap.com

Mark Fasold, Strategic Advisor to Falls River Group (FRG) – IMAP USA, talks about business transformation, detailing the proven approaches and principles that increase the likelihood of not only a successful outcome, but also a higher enterprise value.

It can be difficult to see the need to focus on increasing the value of your business if you have no immediate intention of selling. However, maximizing the value of your company is vital to ensuring that the business is salable in the future, as well as increasing your options in today's market.

Regardless of the industry, one of the key factors that impacts the value of a business is the company's internal systems and processes. If they are unable to keep up with rapidly changing technologies, there will be negative financial and operational impacts throughout the company, which in turn lower enterprise value. The cost of older, legacy systems can be significant and will consume disproportionate resources to keep the systems working and hold back the company's ability to perform. Legacy processes and systems divert attention from the front-end of

One of the key factors that impacts the value of a business is the company's internal systems and processes. If they are unable to keep up with rapidly changing technologies, there will be negative financial and operational impacts throughout the company, which in turn lower enterprise value.

IMAP

the business and servicing customers, hold back talented people, consume funds for more worthwhile investments, and prevent moving to the Cloud for improved IT processing.

The World of Enterprise Resource Planning (ERP) implementations is littered with failures. What can your company do to be successful?

There are no guarantees or prescribed paths to successfully transforming how your company implements and operates with a new ERP system. However, whatever your industry, there are proven approaches and principles that will greatly increase the probability of a successful outcome.

Recognize the Problem

The most important first step for success is to recognize the problem with the current operating environment and make a senior level commitment to transform how the company operates. In other words, the leadership team must create a 'burning platform' for the organization as to why such a large change is needed. Creating the organizational imperative for a transformational change involves deep introspection into how the current situation is negatively affecting the

company, along with the related costs. Another critical insight to explore is what happens if nothing is done? In most cases, the initial assessment will come as a surprise to the leadership team in terms of how poorly (and costly) the current configuration is operating.

Organizing and Assigning the Resources

The next step is organizing and assigning the necessary resources to address the 'burning platform' assessment. Resist seeing this effort as an IT project, which will lessen the chances of success. It is imperative that senior management lead the transformation effort and the lead sponsor for the effort needs to be a C-suite executive directly accountable to the CEO/Owners.

Develop a Roadmap for Success

Another important activity to undertake early on is establishing a robust and detailed roadmap for success. Roadmaps can take many forms, but the content needs to establish budgets, timelines and major events such as Go–Live and be specific on the expected outcomes, including the financial/ operational impacts and ROI's. One word of caution - spend more time here than you think may be

necessary to fully vet the plan, or in other words 'go - slow to go - fast', as thinking through the elements of the roadmap will pay off throughout the project. Ensure you perform risk assessment/mitigation as the roadmap is executed.

The entire process that leads to the Go-Live date should take 9-15 months, depending on the scope of the effort. The software products will have a myriad of modules and functionality that will require critical scope choices for the initial Go-Live.

Set up a Governance Structure
The transformational effort will require a few levels of oversight. As a result, the governance structure is critical and if established with role clarity and who gets to decide what, the chances of success go way up. In general, there would be 2-3 layers of oversight. The most senior governance group is the executive team, that approves budgets, scope and priorities. The next level down is some form of interdisciplinary team, chaired by the C-suite sponsor, followed by the work teams that execute the ground level work, i.e. the new processes and systems. One key point - putting your best people on these teams will also increase the chances of success.

Establish Guiding Principles
The senior team in your company must come to agreement on the guiding principles that the various teams will use to execute the work. These can include such matters as: no customizing core code;

The leadership team must create a 'burning platform' for the organization as to why such a large change is needed.

use standard reports to start; successful Go-Live is the first priority vs. adherence to a schedule and even budget; pursue basics first before advanced capabilities (see Crawl - Walk - Run below); focus on industry proven ERP vs. more general enterprise products; and so on. Think of these principles as guiding strategies and key choices to set guidelines for the incredible amount of work ahead. Changing the principles requires Executive Team agreement.

Adhere to Crawl - Walk - Run Methodology
The principle of Crawl - Walk - Run is to get the basics of the new system running smoothly first and then move onto the more complicated capabilities of the new ERP system. This straightforward concept ensures the base functionality in the ERP system works without fail early on. The Walk & Run capabilities come later. Many a company has violated the Crawl - Walk - Run methodology and paid the price at Go-Live. Get ready - the software companies and people inside the company will request the more complicated features all for good reason, so saying 'not now' will de-risk Go-Live immensely and get some early wins.

Software Selection

What's available in the current software marketplace is beyond what can be imagined. The large players such as SAP, Oracle and Microsoft, have tools that are powerful and risky at the same time, given their enormity and computing power. The choice of software should be guided by the roadmap and guiding principles. Industry specific software can be researched at trade shows where you can meet with multiple software providers and hear their pitches. You will be presented to by sales and business development teams and not the practitioners that will work on your implementation, so insist on meeting the implementation team to assess compatibility and ability. Lastly, beware - software companies like to razzle dazzle you and promise the world with slick slide shows and all the Walk and Run capabilities. You have to cut through all the noise and look at the core fundamental capabilities and functionality to start.

FURTHER PRINCIPLES FOR SUCCESS

1. Prepare for the unexpected - it will happen
2. Start with basic reports & dashboards. Complexity impedes post Go-Live stability
3. Think transformative change vs. solving current pain points
4. Resist employee desire to replicate how processes work today
5. Put mechanisms in place to track progress on a weekly/daily basis
6. Develop leading indicators to spot schedule slippage
7. "De-risk" the plan ruthlessly. Remove anything not required for "Crawl"
8. Detailed cut-over plans and "dry runs" are key to a smooth implementation
9. Communicate often to the organization and get them ready for the change
10. Plan contingency dollars into the budget ~ 10-20%
11. Regularly update the Executive Team & Board - creating accountability

What happens once the system is up and running?

The benefits from a successful implementation and Go-Live are not immediate. The first few weeks will be challenging, regardless of how smoothly things went because people are adjusting to the new ERP tool and processes. This crucial hyper-care phase needs to be attended to by the power users that learned the system inside and out before Go-Live.

In reality, it takes more than 12-24 months to get the full payback and expected results. Once the system and new processes take hold and if the Crawl – Walk – Run methodology was followed, it's almost guaranteed the benefits will exceed expectations. Remember, the more the company initially implements ERP features that are incrementally complex and harder to understand, the longer it will take to get the benefits.

What are the benefits for the company?

After all the work to Go-Live, including headaches, tough choices, stressful moments, and employee fatigue, what's in it for the business? What can be expected in terms of positive results and minimum expectations?

a. Expect a 5-7year IRR in the 20-30+% range. If your business is a working capital-intensive business, the potential increased cash flow from better inventory and receivables management could be significant.

b. Work will go away and reduced head count follows. The cost savings will be in many functional areas. There must be a disciplined approach to eliminate positions whereby the old and inefficient work processes are eliminated. Eliminating 5-10% of the positions is a reasonable target.

c. Maintaining new systems, all-in, is cheaper in most cases, especially systems maintenance. The roadmap needs to get quite specific as to the IT infrastructure that will cease with the new ERP and the old remnants of legacy systems must be eliminated entirely.

d. Technology resources are freed up to work on client/customer facing opportunities. The ability to turn your attention to your customers will be the significant benefit.

e. Asset management gets easier and quantifiable improvements will be obvious (e.g., inventory cash flow gains and better AR management).

f. Costly company owned data centers can be phased out. Cloud based solutions offer efficiencies and more bandwidth.

g. The Company will simply run better. Employees will enjoy their work more and with 'one version of the truth' information and reports, the organization will be better informed.

A company's ERP is one of the most important factors in determining whether an M&A transaction will be a success or failure.

A successful ERP implementation will enable a company to achieve peak financial performance, enhancing its value, both intrinsically and should the business owner wish to sell, to potential acquirers.

Securing a strong position for your company in a competitive market

A company's ERP is one of the most important factors in determining whether an M&A transaction will be a success or failure. If an old legacy system is still in place, this will be a red flag to buyers. Clearly, a merger or acquisition can provide a strategic platform for future growth, but it can also accelerate enterprise software challenges. The key is to understand how the combined businesses are going to run going forward in order to understand which systems need to be kept, upgraded or retired.

What are the biggest value drivers for implementing an ERP or replacing an old legacy system?

To standardize global business operations; to ensure regulatory compliance; to make employee's jobs more efficient; to better serve customers and keep them loyal; to position the company for competitive hurdles or other market dynamics; to better track and improve the company's performance; to increase the integration of systems across varied locations; to ensure the company is well positioned for growth; and to reduce operational and reporting complexities.

Falls River Group LLC, and our IMAP partners worldwide, understand these critical ERP and legacy system dynamics and know how to best position companies in a very competitive landscape for a sale, an acquisition or the selection of a financial partner. ■

Mark Fasold is a Strategic Advisor with Falls River Group. He is the retired CFO at L.L. Bean with extensive consumer products and omni-channel retail experience. Mark continues to serve on several boards, including that of Korean based manufacturing company, Youngone Corporation, and advises business owners, boards and CEO's with his demonstrated executive ability to develop strategy, talent, systems and processes needed to create dramatic shifts in performance. He developed a global perspective through extensive international work in supply chain/ logistics, retail ventures and management of sourcing/ back office operations in Asia and Costa Rica.

Falls River Group (FRG) is IMAP's partner in Naples, USA and is a global M&A advisor focused on creating value for clients by delivering tailored solutions, expert advice and best-in-class execution. FRG's reach into the strategic acquirer, family office and private equity communities is vast and our relationships run deep. Our thorough and disciplined process, in combination with our unmatched industry expertise, results in superior valuations, faster closings and successful client outcomes.