Michael Doane

The SAP® Green Book
A Business Guide for Effectively Managing the SAP Lifecycle
Contents at a Glance

1 SAP Marital Counseling: Addressing the Most Common Post-Go-Live Issues .................................. 25

2 An SAP Maturity Model .................................................. 37

3 Building and Sustaining a Center of Excellence ................................................. 69

4 We Do It Themselves: Outsourcing SAP Applications Support ..................... 115

5 Staffing, Sourcing, and Evolving ........................................... 143

6 The Art of the Upgrade ................................................... 155

7 Intelligent Business Intelligence ........................................... 167

8 SAP as the Engine Behind Measurable Business Benefit ........................................... 181

9 Drivers at Work: Supporting Your SAP End Users ... 213

10 From Supplier to Advisor: A New Hat for SAP ........... 237

11 Last Word Freak ............................................................... 245

12 Postscript: The House I Live In ........................................... 247

A Sources ........................................................................ 253

B The Author ................................................................... 257

C Contributors .................................................................. 259
Contents

Preface ................................................................. 13
Introduction ....................................................... 17

1 SAP Marital Counseling: Addressing the Most Common Post-Go-Live Issues .......... 25

2 An SAP Maturity Model ................................. 37
   2.1 Denial, Realization, Determination ............... 37
   2.2 From Core Implementation to Evolving Center of Excellence ................................. 38
      2.2.1 Level 1: Core Applications ..................... 42
      2.2.2 Level 2: Stable Applications ................. 42
      2.2.3 Level 3: Center of Excellence Defined ... 42
      2.2.4 Level 4: Center of Excellence Managed .......... 43
      2.2.5 Level 5: Center of Excellence Evolving ... 43
   2.3 Elements of SAP Maturity ............................. 44
      2.3.1 Level 1: Core Applications Implementation .............................................. 45
      2.3.2 Level 2: Stable Applications ................. 48
      2.3.3 Level 3: Center of Excellence Defined ... 50
      2.3.4 Level 4: Center of Excellence Managed .......... 53
      2.3.5 Level 5: Evolving Center of Excellence ... 55
   2.4 Assessing Your SAP Maturity .......................... 57
   2.5 Best Practices for Evolving to a Mature Center of Excellence .............................. 62
      2.5.1 End-User Maturity .............................. 63
      2.5.2 Business and IT Dynamic Maturity ........ 63
      2.5.3 Enterprise Applications Maturity .......... 64
Contents

2.5.4 Value Management Maturity .............. 65
2.6 The Overriding Importance of a
Rational Business/IT Dynamic .................. 66

3 Building and Sustaining a
Center of Excellence .................................. 69

3.1 New Lifecycle ......................................... 69
  3.1.1 The Legacy Applications Lifecycle ...... 70
  3.1.2 The SAP Applications Lifecycle .......... 71
3.2 Pre-SAP Implementation Strategies and
Best Practices ............................................. 73
  3.2.1 Data Migration/Manifest Planning ...... 74
  3.2.2 Instance, Version, and Data Center
       Management Planning ......................... 75
  3.2.3 Application Portfolio Management ...... 77
3.3 Why Firms Need a Center of Excellence ........ 78
3.4 Center of Excellence Organization .......... 80
  3.4.1 Enterprise Domain .............................. 83
  3.4.2 Enablement Domain ......................... 85
  3.4.3 Applications Domain ....................... 87
  3.4.4 IT Support Domain ......................... 88
3.5 Transforming the “Build” Team into a
Continuous Business Evolution Team ............ 89
3.6 Building a Center of Excellence .............. 90
  3.6.1 The Methodology .............................. 91
  3.6.2 Roles and Skillsets .......................... 94
  3.6.3 Direction and Duration ..................... 100
  3.6.4 A Note about Basis Administration ....... 100
  3.6.5 A Note about the Run SAP
       Methodology ..................................... 101
3.7 Variant Structures for Centers of Excellence .... 102
3.8 Mastering the Business/IT Dynamic .......... 104
3.9 A Word about SAP Solution Manager .......... 106
Contents

3.10 When It All Goes Wrong: How Centers of Excellence Become Centers of Mediocrity .... 107
3.10.1 Leadership and Entropy ...................... 107
3.10.2 Business Process Orphansip .............. 109
3.10.3 Super Users Cast Adrift ....................... 110
3.10.4 Burial by SAP ................................... 112

4 We Do It Themselves: Outsourcing SAP Applications Support ............................. 115

4.1 We Do It Themselves .................................. 115
4.2 Applications Are What We Do ...................... 116
4.3 Why on Earth Would We Outsource Our Applications? ..................................... 119
4.4 Application Outsourcing Adoption .................. 123
4.5 Crossing the Bridge from Maintenance to Management ......................................... 127
4.6 Governance for Outsourced SAP Applications Support ........................................... 133
4.7 Fee Strategies .......................................... 135
4.8 Basis Is Eternal (and Can Be Done from Anywhere) ............................................. 137
4.8.1 Delivery from Anywhere ....................... 138
4.8.2 The Cost of Remote Basis Support ........ 142
4.9 Conclusion ............................................. 142

5 Staffing, Sourcing, and Evolving ................. 143

5.1 The SAP Ecosystem and the Wisdom of Crowds .................................................. 144
5.2 Staff for Surprises, Not Just the Predictable ........ 146
5.3 Be Your Own Systems Integration Partner ........ 147
5.4 Beyond “Hyphenates”: Business Process Experts .................................................. 149
5.5 The Relative (Un)Importance of Certifications .... 153
Failure to apply business measures is the most common weakness across the SAP installed base. This chapter details how it should be done and how it will help you sustain a viable Center of Excellence.

8 SAP as the Engine Behind Measurable Business Benefit

As presented in Chapter 1, SAP Marital Counseling, a majority of SAP clients report a failure to measure business results. This failure has been borne out through a large number of SAP maturity assessments. If you feel the need to skip a chapter or two of this book, this chapter should not be one of them.

8.1 The Daily Doughnut

This is a tale of two doughnut suppliers. With one, I phone in my order before 10:00 p.m. With the other, I enter my order online any time before 3:00 a.m.

When I phone in my order, a chatty lady from the doughnut company takes my order and enters it into their sales order system. On occasion, she enters items incorrectly. (Oh, well, stuff happens.) My new order is added to others and, at midnight, another lady analyzes the night orders and updates the baking plan accordingly. At 3:00 a.m. when baking begins, someone runs an update to the production schedule that includes my order. At 4:00 a.m. when baking ends, someone else sifts through the delivery slips and writes up a route order for the delivery trucks. My doughnuts are delivered at 7:01 a.m., and I am asked to pay cash or write a check for them. I am given a receipt, which I promptly throw away.
When I enter my order online, the bakery system automatically updates the baking schedule, packing, delivery routing, and cash flow. At 4:00 a.m., my doughnuts are baked in pre-planned batches and then are boxed with a pre-printed address label that includes a barcode for delivery routing. My doughnuts are delivered to my door at 7:00 a.m., at which time I acknowledge receipt with a magnetic pen. Payment is made automatically. Outside of delivery, my doughnut transaction has required no human intervention and caused zero lags throughout the process.

These doughnut shops are actually the same bakery. The second scenario is after an SAP-enabled transformation.

While many information technology expenditures must be made for technical reasons, the costs related to enterprise applications should all be tied to measurable value. We have noted that the most successful firms in this regard are those that value and support their business process owner. In most firms, support for these individuals tends to fade after software is implemented; the result is a predictable return to small and incremental improvements as time goes on, thus eroding the return on investment.

8.2 Sitting Tight is Not a Winning Option

During the economic downturn of 2000–2003, the market for information technology services cratered as client firms went into a collective paralysis.


So far, this Hooverian response to that downturn has not been mirrored in the SAP consulting market, especially in the installed base. Since the more recent downturn that began in 2008, SAP clients are exhibiting more maturity, including a willingness to move toward instance consolidation, process simplification and refinement, and improved user competency. That is not to say
that the catchphrase “You have to spend money to make money” has caught fire, but at least we have trended away from paralysis.

One welcome development in recent years has been the (mostly) retired notion that SAP is simply IT and that IT—like any other utility, like gas or electricity—can be scaled down to save costs.

Many years ago when I was a CIO, my firm’s president issued a blanket order to all departments to reduce costs by 10%. Without his knowledge, I went to work with each of the department heads to determine ways our IT department could help them reduce costs. It was the most productive exercise we had undertaken in my time at the company, and the potential net gain was a company-wide cost reduction in excess of 12%. The catch is that this included a 15% increase in the IT budget. This was in 1984, and our president thought as much of IT as he did of plumbing. My budget was cut by 10% and I left the firm to get into consulting.

Increasingly, client management, both on the business and IT sides, holds the common view that SAP is a business enabler that can be deployed to (a) save money and (b) increase revenues. How to do both, especially in the wake of the global financial crisis, is the key subject of this chapter.

Bill Wood, a 15-year SAP consultant and SAP project manager who runs R3Now.com, says:

“Many companies are beginning to realize some of the culture transformation promised by ERP. The SAP shops who are realizing the benefits have been live long enough that lower-level management and application support are changing from a reactive transaction support mode to more proactive data analysis. This, in turn, leads to better planning and gives the corporate culture a more strategic orientation. That strategic orientation is leading to value-based spending decisions that are producing real benefits.”

The next section describes an activity path that should be followed even when the economic weather is fair. One distinction for these economic conditions, however, is a presumption that
you will not be adding significant resources or investments; the economic gains that will be realized will be derived from existing resources, with greater focus on value and less focus on the daily grind.

There are two key steps to follow to weather any fiscal challenge with SAP:

1. Liberate yourself from non-strategic activities.
2. Fulfill strategic activities based on targeted and measurable business benefit.

Even in fairly mature SAP installations, there are countless tasks to be fulfilled on a daily basis that provide little or no value to your enterprise. Many of these tasks are “the things we do because they need doing.”

Meridian Consulting is a firm I’ve been associated with for many years that helps clients drive more value with their SAP system. In doing so, they define four types of tasks (see also Table 8.1):

- Customer-service tasks entail physical, vocal, or electronic interface(s) with a customer (that is, someone who “consumes” or derives value from your output). These tasks begin with words like respond, serve, reply, delivery, and support.

- Value-adding tasks lead up to the customer interface, changing the inputs received so that they demonstrably enhance the quality, utility, or cost competitiveness of the end product or service to the customer. Value-adding tasks begin with words like transform, enhance, connect, and complete.

- Process tasks exist solely to mechanically move a process forward. They are usually devoted to creating and managing “tangibles.” While some process tasks are needed, they do not add value. Process tasks begin with words like compile, enter, move, stack, store, and collate.

Note that some process tasks add value in that their completion is a necessity even when the absolute value is low.
Compensating tasks compensate for something that was not done right the first time. They do not add value and should be eliminated. Compensating tasks begin with words like fix, repair, redo, inspect, check, and reconcile.

Not only do compensating tasks not add value, but worse, they also suck the oxygen from your support staff as well as the user community. "On average, organizations spend no more than 30% of their time on true customer service or value-adding work," says Michael Connor, a Managing Partner at Meridian Consulting. “This holds true in firms with mature ERP platforms, which on its surface is surprising. The problem is two-fold: First, too many organizations fail to adequately automate work, which means lots of time spent on low-value 'process' work. And second, the extent to which organizations are willing to devote resources to fixing mistakes is alarming, given the lack of reward for such fixes."

<table>
<thead>
<tr>
<th>Customer-Service Tasks</th>
<th>Process Tasks</th>
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<tbody>
<tr>
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</tr>
</tbody>
</table>

Table 8.1  Types of Tasks According to Meridian Consulting
As a simple exercise to root out strategic work from non-strategic work, ask each full-time employee in your support group to estimate what percentage of time they dedicate to each of the four activity categories. The result will not be pleasant. Even firms with a fair measure of SAP maturity find that compensating tasks consume at least 25% of their time. Further, such tasks were almost certainly unbudgeted prior to initial go-live, in that fix, repair, redo, inspect, check, and reconcile tasks are the direct results of inadequate response to implementation issues. Further to this point, you might find that an important number of these tasks are due to a failure to retire applications that were supposed to be made obsolete when SAP went live, or are the result of some short-cut customization or “temporary” work-around. What works around comes around.

Relief from non-strategic tasks may require a “strategic initiative” by which your applications are modified or streamlined.

However, one interesting, if nerve-wracking, test is to simply stop fulfilling those tasks in several well-chosen areas. Like many of the “issues” that arise in the course of an implementation, some the supposed “issues” relative to compensation tasks will simply evaporate.

The measure of strategic work is more easily illuminated if the enablement domain of a Center of Excellence is in place. Compensating tasks are often shared between IT techies (fix, repair) and end users (redo, inspect, check, reconcile). In concert, these two groups can weed out tasks that are not driving a business process or ensuring data integrity.

8.3 Measures of Success

If you haven’t measured, for whatever reason, now is the time. I am not referring to the various metrics that are only relevant to SAP deployment, but to business measurements that can be tracked with SAP.
To weather a fiscal crisis and to “thrive after go-live,” measurement is an absolute requirement. It doesn’t have to be a painful experience!

Here the goal is “more for less,” and the means to that goal are centered on your ability to measure and your capacity to act. If you are bogged down in the day-to-day operations, that capacity for action will be limited. If you are not capable of measuring, you will fail.

In the R3Now.com online article “Using SAP to Improve Revenue and Profitability,” Bill Wood wrote, “Technology works best when the rules, metrics, criteria, and the means to acquire, process, or analyze information which supports revenue and profitability are understood and defined.”

Chapter 4, We Do It Themselves: Outsourcing SAP Applications Support, advises you to outsource non-strategic activities to gain the capacity to act. As for the measures, we advise simplicity and clarity instead of complexity.

### 8.3.1 Getting Past Total Cost of Ownership

The most widely accepted measurement of success for SAP implementations has long been total cost of ownership (TCO). This measurement, favored by SAP software vendors, is rapidly losing relevance due to a combination of (a) the rise of value metrics and (b) the inherent flaw in TCO itself, namely that it is only half of a viable ROI equation.

Further, TCO usually encompasses only the implementation period and the first two years of operations, thus addressing a software implementation with a life span far shorter than the 25 to 30 years of most SAP installations.

Often, simple technical considerations, such as obsolete IT installations, lead to a reactionary move to replace old applications with SAP. In many cases, client management underestimates the effort required to implement enterprise-wide software. During a
lengthy implementation process, the temptation is often to “get it over with.” In such scenarios, benefits fall to the wayside. This is most often the case when the initial vision was cloudy and goals were vague or, as in thousands of cases in the late 1990s, SAP was implemented in a race against Y2K, when benefits were neglected due to time constraints.

In brief, TCO is a pier and not a bridge.

In this same light, pure financial measures will not suffice. Whether you are looking at net present value (NPV), return on investment (ROI), internal rate of return (IRR), or economic value added (EVA), the result will be (a) open to multiple interpretations and (b) of very little value to the business constituents. Further, results do not provide a diagnostic that addresses what needs to be changed to improve the result. In short, they do not provide enough information about how you are or are not driving value from your SAP investments.

Another red herring associated with some of these measures has been repeatedly cited by clients who refuse to engage consultants in gains-sharing arrangements because they feel that factors other than the work undertaken by consultants may contribute just as much to the ultimate economic benefit as the consulting work does. (A simple example is a change in economic climate in parallel to a measurement period.)

Financial measures do not provide a concrete goal that both business people and IT staff can get their arms around. You cannot use “NPV = $20M or Bust” as your operating slogan.

Finally, such measures do not account whatsoever for intangible benefits. Even though measuring the value of such benefits can be slippery, they do exist.

The bottom line is that while financial measures should be employed, you will need something much closer to the business nervous center than such high-level barometers.
8.3.2 Value of IT Methodologies

There are a variety of proven methodologies for measuring the value of IT. Among them are:

- Total Economic Impact (TEI), a Forrester offering
- Val IT, provided by the IT Governance Institute
- Business Value Index (BVI), developed and used by Intel
- Applied Information Economics (AIE), developed by Douglas Hubbard of Hubbard Decision Research

These are all valid methodologies, but the implementation of any one of them will require a pretty fair level of IT sophistication and organizational discipline. Further, while the deployment of any of these methodologies will provide more tangible measures than financial results will, they are still focused on the “value of IT” rather than visible, measurable business benefit. I mention them here to eliminate them as possible driving methodologies for helping you thrive.

8.4 Getting Business to Take the Wheel

To truly achieve visible, measurable business benefit enabled by SAP, your business people will have to get on board—and not just for the duration of a single project.

You will not inspire your business people with generalities about streamlining operations or achieving economies of scale. What is needed is an understandable and relevant target and someone to champion its attainment. Champions are set up to be business heroes.

In the introduction, I related the story of a CIO who failed to take measurements when implementing SAP but later learned how to get business stakeholders to step up. The key was using business language and key performance indicators, or KPIs. These phrases represent the hour-to-hour concerns of business people and
SAP as the Engine Behind Measurable Business Benefit

should be at the nexus between business and SAP. And if they become your lingua franca, you will surpass business and IT alignment and enter into business and IT dynamism.

Consider the following possibilities:

- Cost of sales
- Gross margin
- Gross profit
- Operating profit
- Return on investment
- Return on sales
- Return on total assets
- Yearly expenditures on R&D as a percent of net sales

Clearly, these are some of the prime areas in which most businesses seek to improve.

As a result, a business case should address:

1. Description of the mission (why it is being undertaken and what is the intended result)
2. Project context and priority
3. An assessment of the potential impact on current business for the duration of the project
4. Critical success factors
5. Anticipated economic benefits and rate of return
6. Anticipated strategic benefits and business impact

Most firms adequately develop the first four elements of a business case, but the latter two points are given bullet-point treatment when in fact solid numbers are needed. The intended amount of your financial return and the timeframe in which it will be realized should be decision drivers during your SAP project planning. Thus, you will be able to plan to benefit, rather
than tailoring your plan to time and cost alone. By planning to benefit, you are directly addressing your business stakeholder with this idea: We will make you a hero.

8.5 The Enterprise Applications Value Chain

For any enterprise, business results are directly reflected in a profit and loss statement. KPIs that most directly affect P&L results should be identified, as well as the business processes that drive them.

In this value chain (see Figure 8.1), competent users fulfill business processes with SAP software. These processes can be tracked and improved at the level of KPIs to improve the profit and loss. Note that without KPI tracking, you would not know if, or how much, your enterprise performance has improved.

To maximize measurable gains, we recommend that you take the following steps:

- Determine which performance indicators are the most vital to your firm and which will most clearly reveal benefit (or lack thereof).
- Accurately measure your current performance in these areas; this can be costly and time-consuming because few firms maintain data that relates to business processes.
- Determine the current performance measures in your industry sector (average and best performance).
- Measure the differences between your current performance and industry averages and bests.
- Establish a target to be achieved at the KPI level.
- Identify the business processes that drive KPI results.
- Improve those business processes with a combination of SAP applications, changes to the process, and assured end-user competence.
End users, who have traditionally been trained only to enterprise applications functions, should be trained for their roles in fulfilling business processes and about how such fulfillment drives business performance improvement. Many firms fail to receive planned benefits simply because the users are not sufficiently competent.
In sum, think of your end users as being the pilots and SAP as the engine as you drive down the superhighway of business processes to improved KPIs that lead to the promised land of improved profit and loss.

8.6 Iterative Business Process Improvement—A Sample Exercise

A prospective client once told me that his firm was in a mess and needed more “computerization.” When I attempted to re-frame the discussion toward business improvement with the help of computerization, he grew testy, saying, “We’re losing five thousand dollars a day and we need to speed things up!” While it may have been wiser to remain silent, I replied that if we merely “sped things up,” he could lose ten thousand dollars a day.

I don’t know if the firm ever got more computerized. I never set foot in the place again.

While much of what follows reveals how SAP “computerization” can enable business process improvement, the core of the exercise is common sense revealed through measurement. Your business process improvements can be incremental or dramatic, and the decision as to which tactic to adopt will pivot on the required organizational change. Because of organizational complexity, dramatic changes might be more daunting than planned business benefits merit.

In the example in Figure 8.2, the client is a provider of assemble-to-order goods for which speedy order fulfillment is a major KPI. The client has determined that sales order processing is too costly and is a drag on order fulfillment turnaround time.

The client is targeting dramatic reduction in the cost of sales order processing, which, if successful, will yield annual savings of nearly $3 million. Of potentially greater benefit is the goal of shortening the order fulfillment turnaround time (see Figure 8.3).
It is not necessary to hit these targets in one concerted project. With limited resources, you can effect iterative improvements, each aimed at the same ultimate KPI target.

Measurement begins with the as-is state for the business process (see Figure 8.4).

It consists of measuring the human time required for each step in the process, as well as the lag time (in days) between steps. If your process is more time-intensive, lag can be measured in smaller increments. It is usually sufficient to apply a single average labor cost (resource plus overheads) across a process, as in this example. Note that the $400-per-day labor cost includes the average cost of all steps except for production itself. Thus, 10,000 orders per month are being fulfilled in 1.33 hours (16% of an eight-hour working day), with just in excess of nine working days to complete the process.
This business process is deemed important by a client with the following business activity:

- 500 clients, with 65% of all revenues coming from 60 clients
- 500 suppliers with materials purchasing = 60% of all costs

The various steps in the horizontal process are carried out by diverse vertical department—one of the reasons business process ownership is a key issue (see Table 8.2).
In traditional (non-SAP) arenas, each of these departments may have its own separate IT system, so interfaces are required to pass orders data from one system (and department) to the next. Flow is compromised, as is accountability.

To reach our goals of reducing costs from $64 per order to $40 per order and order fulfillment turnaround from nine-plus days to seven days, we will go through three steps (although, as will be seen, these could all be accomplished in one go). Many firms founder by trying to do too much too soon, resulting in change management issues or too steep a learning curve. In this example we are going to up the stakes with each step.

<table>
<thead>
<tr>
<th>Task</th>
<th>Department</th>
<th>Module</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phone Order</td>
<td>Pre-sales</td>
<td>Sales/Distribution</td>
</tr>
<tr>
<td>Stock/Delivery Verification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accept/Enter order</td>
<td>Sales Order/Processing</td>
<td>Sales/Distribution</td>
</tr>
<tr>
<td>Order Acknowledgement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Select Vendor</td>
<td>Purchasing</td>
<td>Materials Management</td>
</tr>
<tr>
<td>Approve Purchase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase Materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receive Materials</td>
<td>Warehouse</td>
<td>Materials Management</td>
</tr>
<tr>
<td>Production</td>
<td>Production/Planning</td>
<td>Production</td>
</tr>
<tr>
<td>Packing</td>
<td>Warehouse</td>
<td>Materials Management</td>
</tr>
<tr>
<td>Shipping</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invoicing and Collection</td>
<td>Accounting</td>
<td>Financials/Sales/Distribution</td>
</tr>
</tbody>
</table>

Table 8.2 Process Steps and Departments Responsible
The first step is a common sense procedural change for which no particular information technology is required. (Most clients have loads of these.) In this example, the client has continued to assign invoicing to accounting, which accounts for the lag between shipping and invoicing. By simply producing invoices at the shipping site, this two-day lag is eliminated and the cost-per-order process is slightly shaved (see Figure 8.5).

<table>
<thead>
<tr>
<th>To Be (A) Common Sense Procedural Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Process</td>
</tr>
<tr>
<td>Sales Order Process</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>Purchasing</td>
</tr>
<tr>
<td>4</td>
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<tr>
<td>5</td>
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<td>6</td>
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<tr>
<td>7</td>
</tr>
<tr>
<td>Production</td>
</tr>
<tr>
<td>8</td>
</tr>
<tr>
<td>9</td>
</tr>
<tr>
<td>Shipping/Invoicing</td>
</tr>
<tr>
<td>10</td>
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<tr>
<td>11</td>
</tr>
<tr>
<td>12</td>
</tr>
</tbody>
</table>

Labor = $400 per day

| Time | Lag | Labor Cost per order |
|-------------------------------------------------
| 0.150 | 7.140 | $60.00 |
| Number of Orders per Month | 10,000 |
| Total Workload (Time * Orders) | 1,500 Hours per month |
| Time Reduction | -0.01 per order | $(4.00) Reduced cost per order |
| Total Time Reduction | -100 Days per month | $(40,000) Reduced cost per month |

Figure 8.5 To-Be Common Sense Procedural Change

In a second step, which is technology-driven, we take advantage of web-based order entry, by which clients no longer call in orders but enter them on the web and assign staff to monitor traf-
SAP as the Engine Behind Measurable Business Benefit

fic and occasionally help clients through the process. (While the result would be a major reduction in sales order processing, we assume complete adoption of web order entry to simplify this example.) Figure 8.6 shows the to-be matrix.

![To-Be Technology-Based Procedural Change](image)

The result is fairly minor in terms of reducing lag time (from .04 to .01 days per order), but we have reduced the cost another $12 per order.

The third step is an SAP-based procedural change by which SAP-enabled automated purchase processing is implemented. Hereafter, vendor selection and purchase orders will be automated. For
In this example, we have retained the approval process, but the net gain is another $8 per order and another half day reduction of lag (see Figure 8.7).

### Figure 8.7 To-Be SAP-Enabled Procedural Change

The three improvements have allowed us to achieve the goals initially set in the KPI exercise of reducing costs to $40 per order, as well as reducing the order fulfillment turnaround to less than the goal of seven days (see Figure 8.8).

As for the next iteration of order fulfillment process improvement, note that in our new “As-Is” (To Be C), 90% of the lag is due to the five days spent awaiting delivery of materials and the one day of production.
The logical next step to shortening turnaround time would be to improve the materials acquisition process by measuring the as-is steps in the same way we did for the order fulfillment process. This is only one example of what could be dozens of measurable benefits derived from business improvement enabled by sound business process design and SAP business applications software. Though this exercise is simple, the key point is that measurement of KPIs should be at the heart of any such effort, and that targeted gains must be measured against the costs associated with them.

**Figure 8.8** Results

<table>
<thead>
<tr>
<th>KPI</th>
<th>Current</th>
<th>Industry Average</th>
<th>Δ</th>
<th>Peer Average</th>
<th>Δ</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost/Sales Order Processing</td>
<td>$64.00</td>
<td>$52.00</td>
<td>($12.00)</td>
<td>$48.00</td>
<td>($16.00)</td>
<td>$40.00</td>
</tr>
<tr>
<td>Business Process ERP Models</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Order Fulfillment Sales, Materials, Management</td>
<td>120,000</td>
<td></td>
<td></td>
<td>$7,680,000</td>
<td></td>
<td>$2,880,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>As-Is</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>Gain</th>
<th>Gain %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time Per Order</td>
<td>0.16</td>
<td>0.015</td>
<td>0.012</td>
<td>0.10</td>
<td>-0.06</td>
<td>-38%</td>
</tr>
<tr>
<td>Total Workload</td>
<td>1,600</td>
<td>1,500</td>
<td>1,200</td>
<td>1,000</td>
<td>-600</td>
<td></td>
</tr>
<tr>
<td>Cost Per Order</td>
<td>$64</td>
<td>$60</td>
<td>$48</td>
<td>$40</td>
<td>-24</td>
<td></td>
</tr>
<tr>
<td>Total Cost Per Month</td>
<td>$640,000</td>
<td>$600,000</td>
<td>$480,000</td>
<td>$400,000</td>
<td>$240,000</td>
<td></td>
</tr>
<tr>
<td>Turnaround (working days)</td>
<td>9.14</td>
<td>9.1</td>
<td>7.1</td>
<td>6.6</td>
<td>-2.54</td>
<td>-28%</td>
</tr>
</tbody>
</table>

Annual Savings = $2,880,000 = 12 months x $240,000
Index

A
Alignment, outsourcing 126
Application maintenance 118
Application maintenance outsourcing 117
Application management assistance 30
Application management leadership 98
Application management outsourcing 30, 117
Application management services 117
Application management staff 98
Application portfolio 42, 43, 47, 52, 54, 56, 64
Application portfolio management 77
Applications configuration 87
Applications domain 83, 87
Applications help desk 128
Applications management 95, 118, 128
Applications support 88, 128
  governance 133
  levels 128
  outsourcing 115
Applications team 233
Applied Information Economics (AIE) 189
ARIS 152
ASAP methodology 101
Assessment, outsourcing 126
ASUG 14, 145, 232, 242

B
Basis administration 100
  outsourcing costs 142
Basis support 137
Best practice weight 58
Best practices 21
Business intelligence 83, 167
  levels 177
  Business process 53, 54, 55, 66, 226, 229
  Business process expert (BPX)  community 145
  Business process experts 149
  Business process improvement, iterative 193
  Business process modeling (BPM) 152
  Business process orientation 220
  Business process orphanship 109
  Business process owners 96
  Business Value Index (BVI) 189
  Business/IT Dynamic 66, 104
  Business/IT Dynamic maturity 63
  Business/IT dynamic maturity levels 64
  Business/IT dynamics 44
  BusinessObjects 14, 167, 171

C
Center of Excellence 14, 21, 31, 32, 39, 66, 181, 186
  best practices for maturity 62
  building 69, 90
  defined 42, 50
  evolving 43, 55
  managed 43, 53
  methodology 90
  need for 78
  organization 80, 82
  reasons for failure 107
  variant structures 102
Center of Excellence defined best practices 51
Center of Excellence evolving best practices 55
Center of Excellence managed best practices 53
Centralized vs. decentralized systems 77
Index

Certification  153  
Cloud  248  
CoE defined  40  
CoE evolving  41  
CoE Managed  41  
Cognos  170, 173  
Compensating tasks  185  
Computer-based training  235  
Configuration  33, 74, 78, 80, 86, 87, 97, 105  
Continuous Business Evolution Team  89  
Continuous business improvement  Cycle  72  
Continuous business improvement vs. incremental gains  79  
Contract processes  134  
Core applications  40, 42  
best practices  45  
implementation  45  
Crystal Reports  167, 170, 173, 175, 178  
Culture,  21  
Culture, organizational  19  
Customer-serving tasks  184  
Customization  33, 78  

E-learning delivery platforms  235  
Enablement domain  83, 85  
End users  44, 95, 213  
types  222  
End-to-end business processes  152  
End-user competency  38, 54, 111  
End-user competency survey  215  
End-user maturity  63  
levels  63  
End-User Maturity Model  225, 226, 227  
End-user training  21, 31, 86, 213  
budget  111  
fulfilling  220  
methods  233  
Enterprise applications  44  
Enterprise applications maturity  64  
levels  64  
Enterprise applications value chain  191  
Enterprise domain  83  
Enterprise Program Management Office (EPMO)  41, 54, 63, 83, 96  
ETL  172  
Evolving  143  
Execution, outsourcing  127  
Executive level/steering committee  96  
Executives  95  
Expert plane  227, 230  
Extract, transform, and load (ETL)  172  

F  
Fee strategies  135  
Fixed fee  135  
Functional integration  87  
Functional upgrade  156, 158, 159, 161, 164  

G  
Gain-sharing methods  136  
Gamification  236  
Global sourcing  130

D  
Data center management planning  75  
Data migration  74, 89  
Database administration  137, 140  
Decrease of integration  77  
Delivery models, outsourcing  130  
Denial  38  
Determination  38  
Development  87  
Documentation, user competence  222  
Domains  83  
Duet  247

E  
Economic value added (EVA)  188  
Ecosystem  144
**H**

Hardware migrations 138  
Hardware refresh 163  
Help desk 89, 95  
Help desk process 131  
Help desk training 218  
Hourly fee 135

**I**

Industry know-how 152  
Information architecture 172  
Initial training 226, 229  
In-memory computing 238  
Installed Base 17  
Instance planning 75  
Instructor-led training 234  
Interfacing 89  
Internal rate of return (IRR) 188  
IT methodologies, value 189  
IT support 95  
IT support domain 83, 88  
Iterative business process improvement 193

**K**

Key performance indicators  
KPI 40, 41, 43, 51, 52, 53, 54, 65, 66, 189, 191, 193, 194, 199, 203 (Cont.)  
accounts payable 207  
accounts receivable 208  
best practices 210  
fixed assets 209  
general accounting 205  
HR and payroll 206  
inventory management 208  
manufacturing 207  
over-all 204  
period-end close 205  
planning 205  
procurement 205  
purchases 206  
quotations 206  
KPI 40, 41, 43, 51, 52, 53, 54, 65, 66, 189, 191, 193, 194, 199, 203 (Cont.)  
sales 209  
sustainability 209  
treasury and cash management 207

**L**

Leadership and entropy 107  
Legacy applications lifecycle 70  
Legacy systems 21  
Life span, software 25  
Lifecycle  
legacy 70  
SAP 69, 71, 237  
Long-term approach 21

**M**

Maintenance, to management 127  
Manifest planning 74  
Master Data Management (MDM) 143, 171  
Maturity  
end user 63  
SAP 37  
Measurement 20, 186  
Measures of Success 186  
Mentoring 234  
Metadata Manager 172  
Methodology 27, 89, 91, 95, 100  
Monitoring 139  
Monitoring system performance 137

**N**

Net present value (NPV) 188

**O**

Offshore 130  
Online training 235
Index

Operating system administration 137, 140
Optimization 33
Organizational change management 21, 86
Organizational culture 19
Outsourcing 115, 233
  adoption 123
  adoption model 124, 125
  fees 135
  governance 133
  vs. in-house 119, 120
Ownership 21

P
Performance processes 134
Planning 226, 227
  outsourcing 126
Post-go-live 25
Process owners 95, 96
Process planning 84
Process tasks 184
Production processes 88
Program planning 84
Programming 105
Project completion bonus 148

R
RACI 99
Readiness 226, 228
Realization 38
Re-implementation 33
Relationship governance 134
Reporting 89
Respondent weight 58
Return on investment (ROI) 188
Roles 94
Run SAP methodology 101

S
SAP best practices 21
SAP Business ByDesign 238, 247
SAP Business Intelligence 167
SAP Business Intelligence Portfolio 174
SAP BusinessObjects 168, 171, 172, 243
SAP BusinessObjects Analysis 180
SAP BusinessObjects community 145
SAP BusinessObjects Dashboards 170, 180
SAP BusinessObjects Web Intelligence 178
SAP certification program 153
SAP Community Network (SCN) 145, 242
SAP Competency Center 39
SAP Crystal Reports 167, 170, 173, 178
SAP ecosystem 144
SAP End-User Maturity Model 225, 226, 227
  expert plane 230
  initial training 229
  planning 227
  readiness 228
  stable operations 230
SAP Engagement Readiness Assessment 61
SAP HANA 238
SAP Implementation Roadmap 26
SAP implementation, life span 27
SAP Installed Base 17
SAP lifecycle 69, 71, 104, 237
SAP maturity 37, 38, 39, 47, 225
  assessing 57
  categories 61
  elements 44, 45
SAP Maturity Model 37, 38, 40, 41
SAP NetWeaver 238
SAP Solution Manager 101, 106, 162, 163, 240
SAP Upgrade Landscape 155
SAP User Group Executive Network (SUGEN) 240
SAPPHIRE 144, 145, 238
Index

Selection, outsourcing 126
Skills gap 146, 213
Skillsets 94
SOA 248
Soft skills 151, 153
Software as a Service (SaaS) 248
Sourcing 143
Stable applications 40, 42, 48
  best practices 48
Stable operations 227, 230
Staffing 143, 147
SUGEN 240
Super users 95, 97, 110, 231, 233
  tasks 232
Support 86
Support packages 138
Sustainability 201, 202, 211
System performance 137

U

Unicode 163, 164
Upgrade 138, 155, 214
  best practices 159
  types 156
Upgrade tools 163
User administration 138
User competence, documentation 222

V

Val IT 189
Value engineering 29
Value management 44
Value management maturity 65
  levels 65
Value-adding tasks 184
Version planning 75
Voyager 180

W

Wisdom of crowds 144

X

Xcelsius 170, 180