

# The Added Value of Business Consolidation

an eprentise white paper



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While there is little argument that technical consolidation yields significant benefits, business consolidation promises a much broader ROI that impacts not just the IT organization, but the operational and business side of the enterprise as well. As stated above, these benefits come from the ability to go beyond mere cost-reduction to providing significant improvements in business agility, responsiveness, and operations that can only come from a business consolidation. It's important to bear in mind that the benefits of technical consolidations are not lost in a business consolidation effort: Business consolidations add additional value to technical consolidations, and indeed most efforts at business consolidation will include a technical consolidation effort as well.

The difference, of course, is in the total value of the consolidation efforts. Major IT research firms, like Forrester Research, confirm EAC's own research into the value-add of moving beyond mere technical consolidation. In a study published in 2005, Forrester analyst Ray Wang addresses this issue directly:

*Studies often cite a 20% to 45% savings in moves toward consolidation. The reduction in IT personnel, hardware, and software costs (i.e., license, maintenance, and support) is obvious. However, these factors may be less significant than the exponential leap in days-sales-outstanding (DSO) reductions, inventory reductions, quicker financial close, and other metrics of corporate performance.*

Wang contends, rightly, that the requirement for business consolidation is even more acute in the case of mergers, acquisitions, and divestitures:

*Nearly two-thirds of all mergers fail to realize their value because of an inability to integrate and/or consolidate... Successful execution is the difference between creating shareholder value and destroying investment.*

The potential value of business consolidation is supported by a study of 25 Oracle® consolidation projects by research firm Mainstay Partners. In this report, Mainstay separated what it termed "infrastructure consolidation" from "information" and "application" consolidation, the latter two forming the basis for business consolidation.

Mainstay's research shows a similar value-add from information and application consolidation, with the benefits ranging from significant savings due to increased productivity and reduced procurement costs to improved DSO and closing times.

#### **FINANCIAL HIGHLIGHTS:**

- \$100,000 savings from faster, more accurate billing made possible by information consolidation.
- \$1 million in HR productivity gains by entering data once.
- 8% headcount reduction.
- \$11 million savings from improved manufacturing using integrated supply chain application integrated with sales and forecasting.
- 8% reduction in DSO (days sales outstanding).
- 1.1% savings in procurement costs through a centralized application, resulting in millions of dollars in savings.
- 80% reduction in procurement costs via a centralized process.
- 15% cost reduction by moving to a single financial system.

## **STRATEGIC AND OPERATING HIGHLIGHTS:**

- 50% average process improvement through information consolidation.
- 50% faster close time through information consolidation.
- 20% to 50% improved reconciliation process through consolidated information.
- 80% more productive reporting.
- 86% reduced time-and-expense processing time, and speedier reimbursements.
- 50% average improved data accuracy and quality.
- Tenfold journal entry process improvement via consolidated applications.
- 20% improvement in manufacturing process from leveraging integrated supply chain applications linking sales to production.
- 50% to 75% reduction in invoicing time via integrated application and data.
- 50% reduction in order entry time by leveraging integrated application suite (one global customer table).
- 83% reduction in order processing time.
- 87% fewer customer inquiries via improved data quality and availability.
- 86% processing improvement via integrated applications.

*Source: Mainstay Partners LLC, adapted from IT Consolidation: The Art and Science of Doing More with Less*

Mainstay's data, though anecdotal, exemplify the wide variety of benefits from business consolidation that impact day-to-day functionality above and beyond those that a technical consolidation can provide. These kinds of results can also be seen in the analysis of shared services data center projects, which often include benefits that fall directly under the same rubric as business consolidation. One such project that EAC is familiar with – a shared services consolidation at a major apparel manufacturer – not only yielded significant benefits in lower IT costs, but also provided a significant improvement in inventory management that was expected to yield annual savings of \$80 to \$130 million. Another shared services project – this time at a major automotive parts manufacturer – yielded savings in financial operations of over \$30 million per year in addition to considerable savings in IT costs.

This two-for-one effect is what makes business consolidation so compelling. Whereas technical consolidation largely benefits the IT department's budget and priorities, business consolidation brings the benefits of consolidation to the business as a whole. These benefits can be seen in the examples from the Mainstay study, as well as in the ability to support business events, such as mergers and acquisitions, for which technical consolidations alone are not sufficient to meet the post-event business requirements.

The issue of managing the reporting, regulatory, and business requirements of mergers, acquisitions, and other business events presents a particularly rich case for the value of business consolidation. (For a further discussion, see this article.) These business events are common features of the economic landscape, and pose significant problems for both the selling and the buying party. Whether the issue is adding and integrating data from a merged company, centralizing a data center, or operating a shared service center, a consolidation is required, and a technical consolidation won't result in as well-designed and implemented business and IT environments as would be possible with a business consolidation.

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