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Streamlining Global Operations: A New Approach to Two-Tier ERP

The World of Two-Tier ERP

In an ideal world, every multinational organization would run its entire global operations on a single enterprise resource planning (ERP) application suite. A few do achieve this financial nirvana – but often at significant cost. The rest have to make the best of reconciling conflicting requirements and historic investment decisions to manage what can often be a complex catalog of different systems scattered across their global subsidiaries. This is the world of two-tier ERP: headquarters run the preferred system of record, while subsidiaries operate a second tier of their own systems, from which financial information must be consolidated to provide a comprehensive view of the business.

At first glance, two-tier ERP seems like a second-class solution. But in an imperfect world, it is often the best available choice:

- An enterprise-scale ERP system that works well for the established processes of the HQ operation may not suit the needs of a small, nimble subsidiary that’s developing a new business opportunity or expanding in an emerging market.
- Acquisitions may bring with them an incumbent system that can only be replaced at significant cost and disruption.
- Individual countries or business units may have compliance obligations or other conditions that are better satisfied by a local or industry-specific solution.

Faced with these conflicting needs, virtually every multinational organization has ended up operating a two-tier ERP structure at some point in its lifetime. In many cases, the second tier reflects the disparate needs and histories of individual national or regional subsidiaries around the world. In other cases, business units pursuing new opportunities in domestic markets find specific functional requirements are better served by a dedicated platform tuned to those needs.

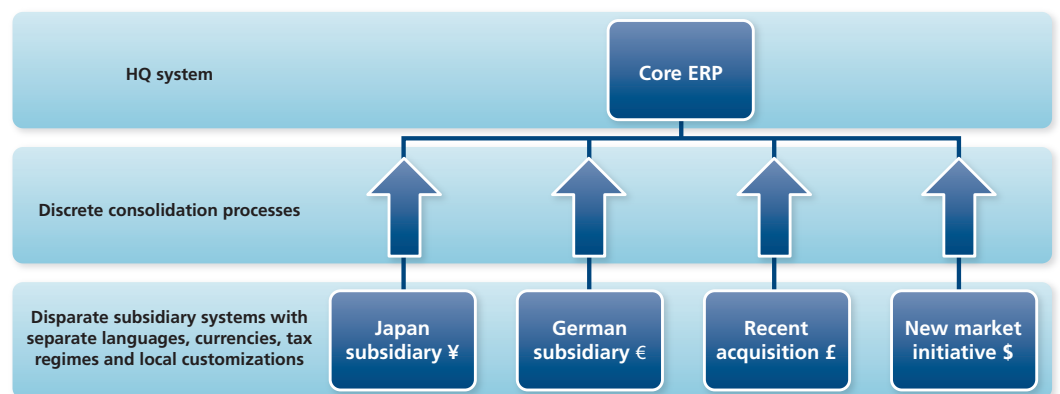


Diagram 1: Conventional 2-tier ERP

The outcome is that each subsidiary operates its own ERP system to suit its individual circumstances, and a consolidation process is put in place to deliver financial information to HQ for each reporting period. Enterprises have historically put up with the cost and inconvenience of consolidating financial information in this way as simply the price of operating across many different markets.

Two-Tier ERP in Today's Connected World

So long as a monthly, quarterly or annual financial consolidation has remained the sole requirement, most enterprises have been able to tolerate the overhead and delay of the traditional two-tier structure. But the role of modern ERP systems goes far beyond merely closing the books. The faster pace of business in today's more connected world is placing more urgent demands for financial information and interaction:

- Management leaders increasingly expect near-instant visibility and oversight. They know that up-to-date information can make the difference between profit and loss, success and failure.
- Business decision makers demand more agility to respond to changing market conditions – once they have the latest information in front of them, they want the capacity to act on it.
- The best opportunities often lie in fast-developing international markets or innovative new business models, where speed and agility are essential to stay ahead of the competition.

Structures that in previous decades were perfectly adequate for routine consolidation are now being asked to deliver more frequent updates at the same time as accommodating more frequent change. Too often, they lack the flexibility to meet these demands without costly and disruptive upgrades to consolidation and reporting processes.

Today's business environment demands a 2-tier structure that can offer subsidiary operations the cost profile, agility and adaptability to local requirements they need. At the same time, it must give HQ better oversight, information access and change management without the overhead of costly recurring integration work. For a growing number of enterprises, the solution is to be found in the cloud.

A New Approach to Two-Tier ERP

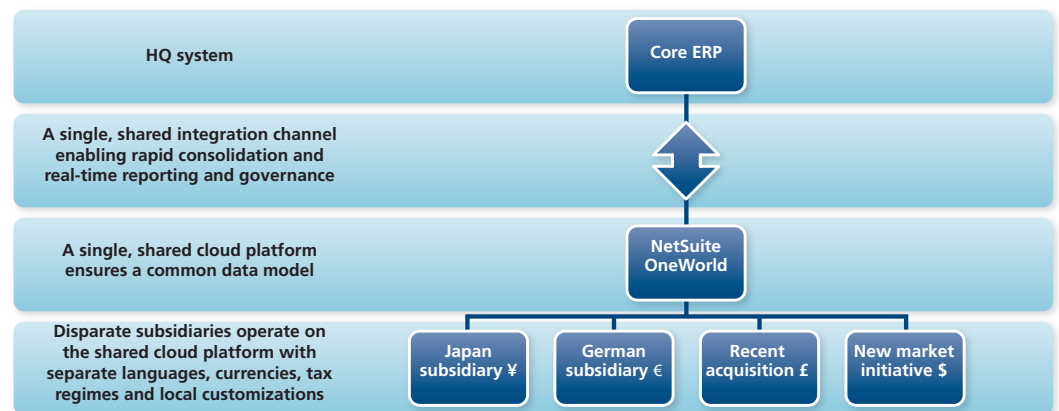


Diagram 2: Cloud-based 2-tier ERP

Using a suitable cloud-based ERP system at the subsidiary level of two-tier ERP resolves many of the conflicts previously seen with conventional software that is separately installed in each subsidiary:

- Accessed via a Web browser on a pay-as-you-go contract without the cost and delay of running up new servers in a local data centre, a cloud-based system can meet the faster implementation, lower overhead and greater flexibility that subsidiaries typically demand.
- Having every subsidiary using the same, shared cloud platform ensures that all information is handled in the same consistent, shared format, enabling far more effective, real-time oversight and reporting.
- Consolidation to the core HQ system is much simpler to set up and manage when it runs over a single connection rather than many separate integrations. This in turn makes it more cost-effective to implement real-time interactions and to keep updating them as business needs change.

Customer experience with cloud-based ERP in a two-tier arrangement illustrates seven key benefits over conventional on-premise solutions.

Simpler consolidation through shared integration

By deploying the same, multi-company, multi-currency cloud ERP platform to each of its subsidiaries, the enterprise eliminates the need to integrate across many separate local systems. Instead, it can rely on the built-in consistency of the cloud platform's unitary data model to automatically consolidate transactional data and reporting across all its subsidiary operations. A single, shared integration then connects data and processes from the subsidiary tier into the central HQ system.

For Land O'Lakes, a leading US agricultural cooperative, implementing NetSuite OneWorld across several subsidiaries and joint ventures in the US, Mexico and China will allow it to standardize on a shared, multi-company ERP system that integrates to a core Oracle ERP platform at corporate headquarters. The deployment will eliminate a number of disparate systems currently in use in the second tier, together with the various consolidation processes associated with them. The 9000-employee organization expects that more consistent processes and better consolidation and reporting will help streamline its operations and provide a platform for growing its international business.

A slightly different example comes from global consumer brand owner Procter & Gamble, which uses SAP for its corporate ERP. It has implemented NetSuite to provide a consistent platform through which its distributors interact with the company.

Balancing consolidation with local autonomy

Cloud doesn't imply cookie-cutter: the multi-tenant architecture of a cloud platform allows each subsidiary instance to implement its own custom processes within the shared system so that it can comply with local market requirements and regulations.

Knowledge Universe, a \$2 billion plus global education company with 40,000 staff across 3,700 locations worldwide, has adopted NetSuite OneWorld across its subsidiaries to provide consistent global reporting while still allowing autonomy for local units. The company uses the vendor's SuiteCloud platform to customize subsidiary instances for each brand and market. The company has found it easy to do most customizations using its in-house resources, rather than having to rely on external consultants to make changes.

“ Going live with NetSuite, people have direct access. Anyone that has a browser – and everyone does – can access information directly within NetSuite, see how their businesses are performing, and most importantly, drill down to see what the underlying financials are underneath it.”

—Reginald Singh, CFO,
Knowledge Universe

Its initial rollout across six subsidiaries in the Asia Pacific region was completed in just four months. The web-based, self-service interface proved easy for users to pick up with minimal training. The implementation provides a real-time consolidated view of performance across all of the company's subsidiaries. In contrast, consolidation to the Oracle instance in the US is carried out manually.

Allowing rapid, cost-effective rollouts

When establishing a presence in emerging markets, it's essential to get up to speed rapidly. At the same time, it's important to minimize costs while the business goes through its start-up phase. Deploying a browser-accessed, pay-as-you-go cloud application makes it possible to rapidly rollout ERP to a new subsidiary and then scale up as the operation expands.

Japanese healthcare and consumer electronics giant Olympus chose to set up a new medical imaging sales and repair services subsidiary in India running on NetSuite, rather than implementing a local solution or deploying a version of its central SAP system. The company needed to bring the new subsidiary online quickly and, using NetSuite, went live in just six months, three months faster than planned.

Fast-food restaurant chain Jollibee Foods, headquartered in Manila, Philippines, used a two-tier approach to enable an accelerated rollout initially to Vietnam, where it brought ten stores live in the space of two months, and then to 256 stores in China. Although Jollibee's corporate headquarters uses Oracle for financial management and reporting, the company decided it would be too costly and resource-intensive to expand Oracle to its international operations. Before implementing NetSuite in place of a patchwork of legacy systems with no real integration, it had managed reporting and consolidation via email. This inevitably prevented Jollibee from acting as a truly coordinated international entity, making timely and informed decisions difficult.

The introduction of NetSuite OneWorld to its subsidiaries has enabled real-time visibility across territories and optimizes operating, purchasing, and expansion decisions. In addition, it has allowed Jollibee to consolidate international financials and enforce corporate governance standards.

Upgrading outdated local applications

For some organizations, outdated or inadequate applications in their subsidiaries simply create a burden that becomes increasingly costly and frustrating. Cloud-based ERP systems provide a cost-effective, user-friendly escape route that wasn't previously available.

Global professional association The Institute of Electrical and Electronics Engineers (IEEE) used to manage the finances of thousands of local chapters and hundreds of annual conferences through an ad-hoc collection of small-business accounting programs and spreadsheets. Its international management had no visibility into local chapter and conference operations except through annually submitted reports, which had to be manually re-keyed into Oracle ERP at headquarters before they could be correctly processed – a reconciliation that took an entire month to complete.

The IEEE has recently eliminated these thousands of different local systems worldwide with a single instance of NetSuite OneWorld that integrates with Oracle ERP at its headquarters. The cloud ERP system was deployed to over 1,500 IEEE conference entities in less than three months, while the rollout to over 2,100 chapters was completed in less than six months. The annual reconciliation process that previously took one month can now be completed in a single day.

“Our parent company is in New York and we’re in China, and they get instant, real-time visibility into our performance.”

—Hunter Xia, Managing Director, NBTY (China) Trading Company Ltd

Leveraging cloud infrastructure

When adopting a cloud-based offering from an established cloud provider, the global infrastructure to deliver the solution comes built-in at no extra charge. This makes it possible to connect to a global network of subsidiaries without having to make any extra investment in wide area networking infrastructure.

New York-based vitamin-supplement company NBTY implemented NetSuite OneWorld to support 100% annual growth at its China subsidiary while synching with Lawson ERP at its US headquarters. The two-tier ERP deployment provides the US corporate parent with real-time web-based visibility into subsidiary performance. Local employees and distributors have self-service access to the system, enabling real-time management of inventory stock levels for subsidiary operations. Financial data is consolidated once a month into the Lawson ERP application at HQ.

The alternative of expanding the existing on-premise system would have required extensive networking and localization. Implementing the cloud-based NetSuite system at the subsidiary put an end to data entry delays of up to one minute at a time experienced on the previous hosted Sage Accpac system. Financial reporting had also been slow and cumbersome, and making any changes at all had meant calling in external consultants.

Introducing new technology-enabled capabilities

Cloud platforms are frequently refreshed with new capabilities and thus provide a cost-effective means of keeping up-to-date with new business models in spheres such as ecommerce, mobile and subscription services. A 2-tier ERP framework makes it possible to ‘bolt-on’ such capabilities and prove out the business model without having to disrupt the core enterprise ERP system.

Portable navigation device maker Magellan GPS implemented NetSuite to upgrade its online commerce capabilities in 20 different countries of operation. Replacing a home-grown ecommerce system put an end to extensive customization work that used to be necessary to add new product lines. Integration with the company’s core Oracle ERP system enabled real-time order processing, improving efficiency and reducing operating costs. The new platform also made it possible to add a mobile commerce site, keeping the brand a step ahead of its competition.

Enhancing compliance, reporting and analysis

A cloud-based system enables real-time visibility into subsidiary activities, making it possible to remotely monitor compliance as well as receiving up-to-the-minute reporting into management dashboards and analytics. Instead of waiting for infrequent consolidations to the central ERP system to see how the business is performing, management gains unprecedented visibility and drill-down into key metrics within an organization’s global operations.

According to a study by Gartner, Olympus found that deploying a cloud ERP platform to its Indian subsidiary actually improved corporate governance because it was easier for HQ to monitor than a traditional on-premise solution. In many NetSuite two-tier implementations, real-time visibility into local metrics has enabled fine-tuning of business models or opportunity management to enhance returns.

Cloud and the 2-tier enterprise

There's a common thread running through these examples drawn from NetSuite's customer base: global enterprises deploy 2-tier cloud ERP when they want to move faster. Whether it's the need to enter a fast-moving new market, gain more agility in their global operations or simply have more real-time visibility into what's going on, the cloud platform has been the enabler.

A second thread is the lack of adaptability of existing, conventional business systems. Global enterprises want to preserve their investment in the well-established financial systems they run at the centre. But they need a different type of platform to support fast-growing operations that are exploiting innovative online sales channels, dynamic logistics, real-time reporting, remote web access and the next generation of mobile clients. Even large companies, who may be able to justify the extra cost of adapting a conventional ERP system to the task, are turning to cloud alternatives because of their speed-to-market, ease-of-use and flexibility.

At the subsidiary tier of a global organization, a cloud-based ERP system offers a strategic response to issues such as cutting the cost of entering new markets, getting better visibility into subsidiaries or bringing automation to remote offices and mobile workers. Sometimes it's seen as a short-term tactical solution, to enable a new business opportunity, replace a failing legacy application or bring an acquisition on board. But where a single cloud ERP platform is used across several subsidiaries, the ability to easily get a consolidated view of key metrics and simplify integration to corporate systems elsewhere in the organization is often seen as a killer feature.

There was a time, in the old world of conventional, locally installed software, when two-tier ERP was a recipe for governance headaches and consolidation nightmares. The cloud has transformed its character. Suddenly, two-tier ERP has become the solution to those very same problems because of the ability to serve a single, shared instance from the cloud to dozens or even thousands of subsidiaries and divisions spread across the globe. Far from adding hurdles to periodic financial consolidation, when deployed from the cloud, two-tier ERP for the first time provides a platform for operating the entire global business on a single, shared, real-time ERP system.

As well as simplifying and speeding financial consolidation for the CFO, a cloud-based two-tier ERP system delivers more complete, up-to-the-minute information to the CEO and everyone else in the executive suite. Much more than simply a platform for improved financial consolidation and governance, it provides a foundation for a modern, co-ordinated, agile and innovative enterprise that is truly global in reach and scope.

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For more than a decade, Phil Wainwright has been a trusted thought leader in cloud computing, as a blogger, analyst and consultant. He maintains a popular blog on software-as-a-service on ZDNet and serves as vice-president of EuroCloud, a pan-European business network promoting cloud services and applications. He is CEO of strategic consulting group Procullux Ventures, where he advises top cloud vendors on messaging, positioning and go-to-market strategy. His forthcoming book, *Frictionless Enterprise*, describes how forward-looking enterprises are harnessing the cloud for business transformation, redefining best practice for successful organizations in the 21st century.