SAP Divestiture Projects: Options, Approach and Challenges

A look at best practices and approaches, based on an extensive case study, for quickly reshaping the system landscape – with minimal process disruption – after a spin-off.

Executive Summary

Increasing globalization, ever-changing market dynamics and volatile business conditions require organizations to become more agile and flexible to ensure sustainability, growth and business continuity. Companies must be aware of all the factors that impact their businesses and understand how to embrace new technologies and ways of working that can deliver enhanced business benefits, and avoid shortcomings. These dynamics are making it even more important for companies to be laser focused on their business cores while divesting and/or turning to partners for activities considered noncore.

The systems implications for divestiture are critical due to legal and statutory reasons. For example, companies are required to keep historical data for the previous seven years. Sometimes this data may be available only in the business system that accompanies the operation being divested. Another important reason for maintaining existing systems of records is the benefit this data has on process continuity.

Divestitures require significant planning and due diligence to ensure success for both the selling and buying parties. A divestiture typically involves numerous phases, involving legal and financial concerns, from auditing and accounting through transition service agreements and operational separation. It is important, therefore, for both the seller and buyer to have these issues sorted before a divestiture moves forward.

This white paper focuses on operational separation issues and choices encountered by the buyer company during the migration of the selling entity's IT infrastructure. It also examines the issues faced by a company that we advised with an SAP infrastructure landscape and the various complexities involved during and post divestiture.

Divesture Inflection Points

There are several key decisions regarding the migration that can make or break the divested company. They include:

- **IT infrastructure setup:** The infrastructure decision needs to be carefully considered to ensure that the divested company's operations are not affected in the long run and scaling up doesn't become an issue. The divested company can either adopt the divesting company's IT infrastructure or it can set up a new and completely different infrastructure. Both scenarios have their advantages and disadvantages and a careful analysis needs to be carried out to ensure that the best choice

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is made. With an SAP infrastructure already in place, it becomes critical to address this with the utmost care as it can make or break the divested company. This is one critical area where consulting firms can be called on to analyze the situation and provide independent and unbiased recommendations.

- **Application portfolio rationalization:** The application portfolio of the divesting company may include several applications that are obsolete or serve no purpose. As a result, an application rationalization exercise needs to be carried out, to ensure that such applications are not migrated to the divested company's infrastructure. If the lines of business for the divesting and divested company are completely different, then the majority of the applications most likely will not be useful, which may result in a significant number of applications that require rationalization. This step is crucial for the operational efficiency of the divested company.

- **Change management initiative:** As a result of the multiple changes that take place during migration, a well-defined change management strategy needs to be in place to ensure that there is a smooth transition from the divesting to the divested company – one which takes into consideration all aspects of both entities. This change management strategy should consist of legal, financial, HR, IT and various other reviews, depending on the line of business in which the divested company is involved.

At the time of separation, an organization may be faced with various options and the strategy adopted at that time can go a long way to define its future IT strategy.

Divestiture Options

Re-implementation

In this option, the buying organization opts to re-implement the processes powered by the acquired systems infrastructure, post divestiture. This option is appealing as it provides flexibility to implement key processes that an organization needs and ignore those that have become irrelevant (see Figure 1). Moreover, this approach also gives organizations the opportunity to sort out any business process on which it relies and align it with SAP best practices.

Shadow Implementation

This concept sounds different but it is borrowed from the copy-paste function that we all perform daily, often multiple times (see Figure 2). The logic here is to have a reference system – or a copy of the original system – and then re-implement the process on a new server by replicating the process from the reference system, as required. This is a middle path between implementation and "carve out" (see below).

Carve Out

This option probably is the most efficient way of making the system ready with limited resources available at the organization's disposal (see Figure 3). The "carving out" process is more business oriented than system oriented because business rules must be identified in advance; these conditions typically define the carving out of data and transactions.

As we have shown, each of the above options has pros and cons. Choosing an option is usually based on the three factors of project management at the organization's disposal: time, resources and cost. Additionally, the path taken depends on the maturity of the organization and its IT vision.

Re-implementation Advantages and Disadvantages

Advantages	Disadvantages
Flexibility to pick and select processes to be implemented.	Training on new processes.
Flexibility to align with best practices.	Training on new software.
Can implement the lessons learned from previous implementations.	Time-consuming process.
Flexibility to choose the type of ERP.	May require additional resources.
	Costs may be high for above reasons and due to licensing fees.
	Change management.

Figure 1

Shadow Implementation Advantages and Disadvantages

Advantages	Disadvantages
Pick and choose only the relevant processes and functions to be implemented.	Training on new processes.
Flexibility to align with best practices.	Training on new software.
Can implement the lessons learned from previous implementations.	Time-consuming process.
Flexibility to choose the type of ERP.	May require additional resources.
	Costs may be high due to reasons cited above.
	Additional licensing may be required.
	Change management.
	May run into some data proprietary issues present in the reference system.

Figure 2

Applying the Carve-Out Strategy

The following case study discusses a carve-out project we undertook for one client (see Figure 4, page 5).

This company was formed as a result of an acquisition by angel investors who purchased a product division from a large company. The newly-formed company needed to quickly create an IT landscape of its own with medium-scale investment. Since the IT skills of the employees that accompanied the purchased division were very limited, the angel investors decided not to overhaul the existing processes so that data and process familiarity could be maintained. This also meant that minimal training would be required, thus resulting in cost savings.

A carve out is similar to any other project in terms of the methodology followed but the activities in each stage may vary. The process followed was very similar to the SAP ASAP®™ methodology.

Project Preparation

Project preparation is the phase that follows the signing of the license and service agreements. In this project phase business goals are determined

Carve Out Advantages and Disadvantages

Advantages	Disadvantages
Reduced turnover time.	Data separation rules may be complex to code.
Familiarity of the system, process and data.	Non-carved-out data may cause performance issues in the future.
Limited or no retraining required.	Incomplete testing may leave many issues in the carved out system.
Piggy-back on existing licensing costs.	
Less costly.	
Resource requirements are limited.	
No change management.	
In-house knowledge bank can be used.	

Figure 3

and expectations defined. Involvement of all the stakeholders in this phase is vital for the overall success of the project. The decisions taken during this phase will set the path for the ensuing stages and will make or break the project.

The activities performed during this phase included:

- **Creation of preliminary project plan:** This was critical because the client's budget and resources were limited. Additionally, there were multiple vendors involved so all project plans had to merge seamlessly.

- **Creation of preliminary resource plan:** Since the long-term client requirement was for us to take over the regular maintenance of the system post go-live, we had to make sure that the resource plan enabled continuity to be maintained.

- **Identification of resource mix:** Since the client landscape was exceptionally complex, the right resource mix was very important.

Blueprinting

This phase consists of analyzing the company's "as-is" processes, designing the "to-be" processes and setting the path for the transition. This stage is also called the "solution definition phase" since it defines the roadmap for the transition of the processes from the existing to the future scenario.

The activities performed during this phase included:

- **Analysis of IT infrastructure:** The existing infrastructure was very complex; for example, it consisted of multiple instances of various applications, such as PeopleSoft, Biztalk, legacy plant systems, etc. There were at least 10 different servers all talking to one another. The complexity of managing the infrastructure was heightened because our client wanted to host some of its apps in the cloud.

- **Analysis of IT applications:** Existing business applications were also operating in an exceptionally complex environment, involving multiple systems talking to each other: ECC (ERP central component), CRM, SCM, BI, portal, ERP (PeopleSoft), document management (IBM Filenet), Biztalk, etc. Some had a full landscape of development, quality and production environments, while others did not have exclusive development or quality-control environments.

- **Analysis of proposed IT infrastructure and applications infrastructure as required by**

the divested company: This was driven by the budgets of the company and the processes it prioritized. Decisions were also influenced by systems versions that were either too old and/or not supported now by vendors. Example: The version of Biztalk used was no longer supported by Microsoft.

Realization

The purpose of this phase is to implement the business and process requirements and the validated business model as defined in the blueprinting phase. The objective includes translating the solution from the blueprinting phase for final systems implementation testing and preparation for the production environment.

- **Only relevant data, processes and transactions were identified and applied.** This was by far the most important part. For this activity, the client used SLO®, a proprietary SAP tool for separating the systems. The tool works on the basis of marking the data and organization structure that needs to be separated and then, based on the processes and transactions related to that data, carving those out.

- **Tool design was critical to the whole carve-out process.** Since SAP is designed based on a network of tables, and since most often these tables are interlinked through dependent conditions, it is very important to know the sequence of carving out the data.

- **Testing cycles played a key role.** Each time the SLO tool was applied, we went through four test cycles in a period of three months to make sure the carved out data was exact.

The testing strategy was threefold:

- Test if the carved-out system does not contain the divesting company's data.

- Test if the carved-out system has all the data as required by the divested company.

- Run test transactions to make sure that the processes and functions of the divested company work correctly.

During each of these cycles we discovered issues such as:

- Divesting organization data still existed in the system.

- Divested company's data did not exist in the carved-out system.

- Certain transactions relevant to the divested company did not work correctly.

During subsequent cycles these issues were corrected and the final testing revealed sound results. Edits were required to the SLO tool as per the issues identified.

There was some data identified that was not possible to be carved out. So, we took an alternative approach of extracting and then reloading this data.

Final Preparation

This phase is the final preparation before the cutover/go-live phase. It included testing, user training, system management and cutover activities and finalizing the readiness of the go-live environment.

- **This stage was very important since it was the last step to confirm readiness for the go-live.** Since multiple test cycles were involved, we adopted a strategy to make sure that the issues identified in all the previous cycles had been addressed.
- **Final preparation also included the process to be followed by the business during the blackout period of system migration.**
- **A checklist was prepared based on the sequence of events to be followed for the next step of go-live.**

Go-Live and Support

This is the final phase in the project lifecycle. It includes the migration to the new system which follows the to-be processes as defined in the blueprinting stage and realized in the realization phase. Once the system goes live, then support activities kick off wherein monitoring and feedback takes place.

- A successful go-live was performed over the weekend when impact on the business processes was at a minimum. This meant that the blackout period was minimized.
- Go-live included making the system ready for all the transactions, performing a last check of whether all the critical data was imported as well as validating user authorizations and connections to the other systems.
- This stage also included verification of critical processes and data and releasing the system for usage.
- Support to stabilize the system was also provided as well as ongoing system fine-tuning. Since the client needed process enhancements on current projects, we executed those projects after the stabilization period.

Major Challenges and Proposed Mitigations

- Key decisions involving IT infrastructure, application rationalization and streamlining
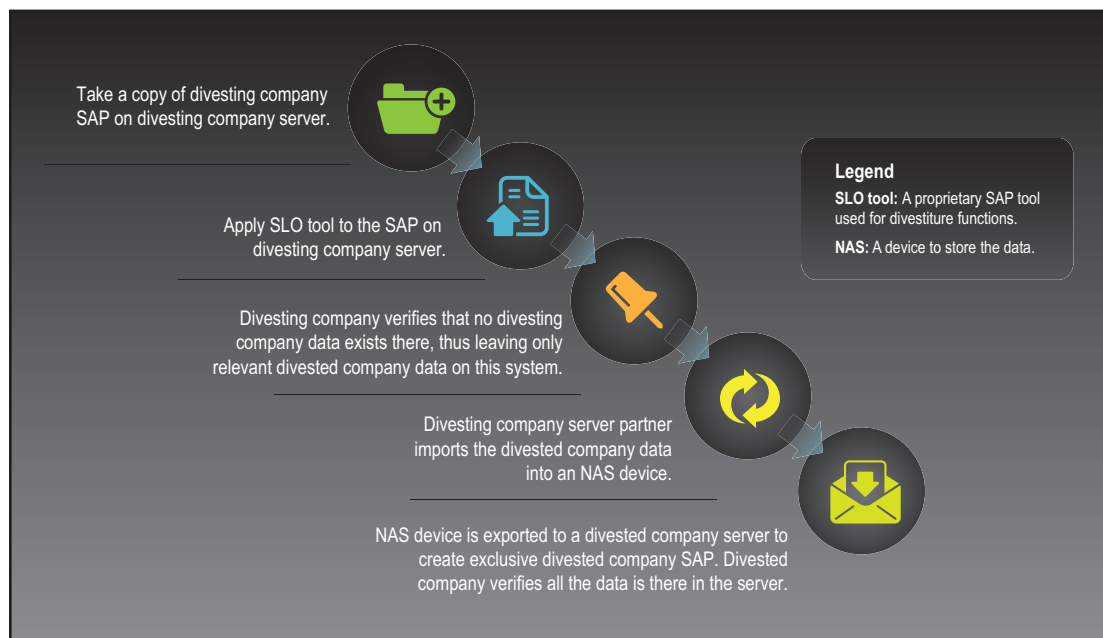
Stepping Through the Systems Migration

Take a copy of divesting company SAP on divesting company server.

Apply SLO tool to the SAP on divesting company server.

Divesting company verifies that no divesting company data exists there, thus leaving only relevant divested company data on this system.

Divesting company server partner imports the divested company data into an NAS device.

NAS device is exported to a divested company server to create exclusive divested company SAP. Divested company verifies all the data is there in the server.

Legend
SLO tool: A proprietary SAP tool used for divestiture functions.
NAS: A device to store the data.

Figure 4

of business processes must be proactively addressed to ensure long-term stability.

> **Mitigation:** The best way to mitigate the above is to make sure that the organization goals with respect to the future IT landscape and policies are clearly defined. Our in-house experience in infrastructure management can add value to these discussions.

• Developing cooperation among the various parties involved such as the divesting company, divested company and other vendors.

> **Mitigation:** The best way here is to have periodic touch-point meetings and build a bridge of trust since mistrust can easily creep in especially when the reasons for a carve out may be different.

• Overlapping dependencies, too many critical paths and tight delivery schedules with numerous milestones.

> **Mitigation:** Establishing a sound project plan and adhering to it is very important. The project sponsor and all the concerned stakeholders need to be on board with this project plan. The project manager's role in this case becomes even more important.

• Business process validations, enhancements, synchronization and stabilization involving SAP and other applications.

> **Mitigation:** Having a knowledgeable user community always helps, but the divestiture organizations may not always be working with a plugged-in set of users who are well versed on existing business processes. Third parties can help by staffing a project with experts who have strong business backgrounds and thus can function as business analysts.

• Maintaining budget and time lines because of dependence on various other vendors in multi-vendor scenarios.

> **Mitigation:** Having a sound and effective project plan is important. Adhering to the same and the involvement of the stakeholders are equally important factors.

Words to the Wise

Here are some of the "gotchas" to be aware of during divestiture projects. The following are a few examples of the most critical concerns:

• Printer migration.

• Batch job migration and changes.

• Intermediate document separation and migration.

• Hard coding in customization objects referring to the parent company's data.

Achievements

• Successfully implemented the carved-out system with minimal deviation from the client's suggested time lines and budget.

• Effectively managed the testing scenarios and made sure that all the data and processes were migrated.

• The system was up and running immediately post migration within the planned five days (including weekend) of system blackout, thus saving the client the hardship of going through extended downtime.

Lessons Learned

• There is no one best approach for divestiture projects. The option, approach and stages will differ based on the situation.

• Validation of critical data and processes is crucial during divestiture.

• An alternative approach apart from the system approach is very important for achieving an effective divestiture.

Looking Forward

Pulling off a successful divestiture is critical for both the selling and buying companies. It requires careful planning and due diligence in the areas of regulatory compliance, financial setup and IT landscape setup. These decisions can be the cornerstone of a successful or failed divestiture.

IT plays an important role across all industries in business strategy and execution. It therefore is necessary to involve IT partners during the initial planning stages of the divestiture so that they can understand the IT landscape of the divesting company, requirements of the divested company and suggest the landscape that the divested company should adopt after the separation. This is one of the most important steps for ensuring that the divested company's IT infrastructure and application portfolio remains in sync with business goals and requirements.

ERP applications are ubiquitous in large organizations, with their promise to simplify business processes, enhance productivity and provide seamless information transfer. Thus it is essential to ensure that the effort that goes into the separation of critical data and processes is taken

into account and planned for in the initial stages to ensure minimal disruption during the operational separation phase.

The integrity of the data to be divested is of core importance, so all efforts should be made to have business rules to correctly identify them. Pre-planning, in terms of engaging the customers and vendors and helping them understand imminent system changes, is also hypercritical. Lastly, it's the people who build the systems, so core team members from all functional areas should be identified and involved in the execution process from start to finish.

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