

# Business Operations Improvement

The New Paradigm in Enterprise IT

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## 2. Introduction

To begin, let's take a peek at seven news items that span nine years and which sets the scene for what went wrong with huge enterprise system packages.

### **May 2001: Boeing migrates 31,000 users to Baan 5**

"This was one of the largest and most complex process and system migration projects ever undertaken at Boeing," said Kristi Savacool, Vice President of Information Systems at Boeing, "and it was delivered at an unprecedented level of quality." It also required massive data transfer. Some 500 gigabytes of aircraft production data had to be transferred for the system's 31,000 users. "It was like building an aircraft," said one participant. "We ran endless simulations and when it launched, it flew."<sup>1</sup>

### **December 2002: Boeing takes to the skies with iBaan**

The system based on iBaan Enterprise provides immediate access to data throughout the production supply chain. "By implementing a comprehensive iBaan solution for all of our 757 production IT, we now have immediate access to full production line and supply chain data from start to finish," said Michele Martin, Boeing Information Systems Director for ERP and Supply Chain Systems. "This gives us powerful new manufacturing capabilities that are leading to significant increases in our efficiency, along with lower costs – two critically important factors in today's increasingly competitive marketplace."

### **June 2003: Baan ERP upgrade delay adds to user cynicism**

Chief Information Officer Keith Bearden, who works for a maker of dental equipment: "Baan spent more time on Gemini (Baan 5) than they did integrating the products they already had." He noted that after his company ran into performance and integration problems with CRM applications it bought from Baan last year, its IT staff had to spend "a lot more time and money" than it expected to get the issues resolved.

### **October 2008: SPEER to cost even more at Dutch Ministry of Defense**

Once again, the predicted costs of the SAP project SPEER at the Dutch Ministry of Defense have risen. The budget has now been increased from € 241 million to € 268.1 million. In 2004, implementation costs were estimated at € 165 million euros, excluding € 20 million in licensing fees. New setbacks are on the horizon. One potential blow is the simultaneous management of legacy systems and the new SAP applications.<sup>2</sup>

### **June 2009: SuccessFactors signs 420,000-user SaaS contract at Siemens**

SuccessFactors, a HR and talent management SaaS vendor, announced a huge and somewhat surprising victory in SAP's own backyard: a 420,000-seat win at Siemens, a deal contended by SAP and thirty other vendors. The contract covers 420,000 users throughout eighty countries speaking twenty different languages.

### **September 2009: Siemens cancels SAP maintenance contract**

Siemens and its 160,000 users will soon be using a third party service provider to manage Siemens' vast SAP system, in a bid to reduce the € 30 million in maintenance fees they are currently paying SAP each year. This event could signal a similar exodus by other large SAP customers.<sup>3</sup>

Such industry trends are demonstrating that even corporate goliaths, like Siemens, are open to alternative software delivery methods – and are clearly not overly-committed to the sanctity of traditional, on-premise deployments.

### **February 2010: ERP take longer, cost more and under-deliver value**

According to a Panorama Study fifty-seven percent of ERP implementations take longer than expected and fifty-four percent of ERP implementations go over budget. Forty-one percent of companies surveyed fail to realize at least half of the business benefits they expected from their ERP systems, and twenty-two percent of implementations fail to deliver at least some measurable business benefits from their ERP solutions. In addition, forty percent realized major operational disruptions after implementation go-live, such as the inability to ship products or to close the books.<sup>4</sup>

### **What went wrong with ERP systems?**

News articles like these spread over the years and after my time with Baan Company, have explained why I began Cordys ten years ago, with an experienced team of engineers, IT and business professionals.

The rise of full-fledged ERP systems, such as those from Baan and SAP, played a great role in the growth of the economy during the final two decades of the last century. ERP implementations brought an efficiency revolution to finance, logistics, manufacturing and inventory management whilst also providing cost savings. As an industry, we have much to be proud of – and I, for one, am still proud of the important contributions that Baan implementations made at companies like Boeing, Philips, Flextronics, Solectron ABB and Komatsu.

However, ERP systems were also noticeably beset with Customer Relationship Management (CRM) and Supply Chain Management (SCM) integration issues, particularly at a time when CRM and SCM systems became popular in the early 1990s. Yet ERP systems were usually able to overcome these issues through good integration techniques.

So what went wrong? Why are ERP systems now regarded with such animosity and suspicion? Why does the industry now believe that the benefits of ERP systems no longer justify the costs?

## The Internet

At the end of the 1990s, it became clear that a developing new medium would fundamentally change the world.

The Internet took companies and individuals by storm. Much could be said about the influence of the Internet; but for me, the key aspect was *Speed*:

- New products, services and technologies are introduced and distributed at a rate we wouldn't have thought to be possible fifteen years ago.
- New companies such as Google and Salesforce.com have become dominant players in virtually no time.
- Established companies, in the retail industry for instance, face new competitors, such as Zappos.com, that have a completely different approach to doing business. The Internet has added a totally new dimension to the sale of products.
- Online communities, which have been springing into existence, have accelerated the development of open source software.

The first Internet revolution (the introduction of the internet) left its mark, and the second revolution (in which we are now in) is now doing that to an even greater degree. More will be discussed about the Internet revolution later in this section.

## The consequence?

Companies have to be agile enough to take advantage of new situations, to continuously monitor their processes, and to be able to adapt these processes - all in the blink of an eye.

- Reorganizations and changes to business structure and strategy occur in a rapid, continuous cycle
- Business data security has become a great concern

- Measurement, analysis and change are the elements of a continuous process that we also call “closed loop process improvement” or “continuous process improvement”
- Efficiency and cost reduction remain important business drivers, but they have now become part of a complex myriad of factors that are in a permanent state of flux.

It also became evident that ERP packages which originated before the Internet age, could in no way satisfy the requirements for rapid change and innovation that companies and organizations seek in today’s business climate.

The experienced team that laid the foundation for Cordys in 1999 clearly recognized these developments and correctly predicted the consequences for business software. Based on these insights, they evaluated three possible scenarios:

1. Adapting existing ERP products to the new situation. This possibility was quickly cast aside. Modifying existing ERP software is expensive, time-consuming and risky. While this methodology may work for large service providers, it was not tenable for the users. Unfortunately we still often see this approach being taken today.
2. Constructing a new (Internet-based) ERP package suitable for the new situation. This scenario was examined seriously. It was attractive because we knew very well how to design an ERP package. However, this approach was not chosen because it would have taken too long and would have meant convincing clients to discard their existing business software solutions and begin from scratch. That would have represented an enormous destruction of capital. We were also unsure whether a new ERP package of this type would be entirely suitable for the new era that was, at that time, still in gestation.
3. Building a platform that encapsulates all the good elements of existing ERP “behind the scenes” while utilizing Internet capability as the “front end”. Such a solution would reuse structured business logic together with the unstructured information in order to establish flexible business processes that can be continuously optimized and improved.

Reflecting back, it was a very wise and positive decision to choose the third option, which ultimately led to the Cordys Business Operations Platform. In a time when the concepts of Business Process Management (BPM) and Cloud Computing technologies were still nascent, we took the pioneering steps of building a platform that leverages and combines

both developments. And here's why that pioneering move promises great benefit. As Smith and Fingar wrote in their book 'Business Process Management: The Third Wave'<sup>5</sup>: "When complexity mounts and eventually becomes unmanageable, it's time for action. As Walt Disney once said, objecting to a proposed sequel to his "Three Little Pigs" cartoon, "You can't top pigs with pigs." In the world of business, stacking a thousand doghouses, one atop the other, to build a skyscraper is a great proposition for doghouse vendors, but not for future occupants. Skyscrapers need an architecture of their own - their own paradigm, not a sequel to the doghouse paradigm."

Through mergers and acquisitions (M&A), some enterprise software vendors seem to be stacking a variety of doghouses atop their pre-existing systems to build their skyscraper. They obviously have a lot of legacy system code and a lot of maintenance revenue to protect.

Caveat enterprise software incumbents: BPM in the Cloud needs an architecture of its own - its own paradigm, not a sequel to the doghouse paradigm.

The journey which has resulted in Cordys, making use of this new paradigm, started more than 30 years ago. Before the Internet. Before ERP. And even before the micro-computer.



**A**fter having built a successful international commercial enterprise like the Baan Company, I had not thought I would ever again have the opportunity to introduce a product to the market that could potentially have such a large impact on so many companies. Nonetheless, it has happened. I would like to share a glimpse of Cordys' exciting journey so far, so we may consider what the future may bring.

The future may just possibly be even more extraordinary for it's not about next-generation software; it's about next-generation business. Even more important, the future is now, for this very day there's a new company getting ready to wreak creative destruction in almost every industry, but without throwing away IT investments from the past. This book tells you the story of my life as entrepreneur. About my successes and my mistakes, which both have been essential for the road that eventually has lead to a new paradigm: Cordys.

Jan Baan