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ROI EVALUATION REPORT MICROSOFT DYNAMICS

THE BOTTOM LINE

Microsoft Dynamics applications deliver solid ROI returns to organizations by streamlining business processes and reducing costs. Typically, the Microsoft applications offer a lower initial cost than competitive enterprise application products, and lower ongoing support costs. This, combined with the flexibility of the product architecture, provides organizations with the ability to take advantage of a number of deployment options to tailor the solution to meet the exact needs of its business locations.

The Microsoft Dynamics product family includes four enterprise applications offerings: Microsoft Dynamics AX, Microsoft Dynamics GP, Microsoft Dynamics NAV, and Microsoft Dynamics SL. The products deliver integrated functionality that enable companies to manage business operations and provide centralized access to business data.

Companies that range in size from small businesses up through large organizations, and divisions of multinational corporations have successfully deployed Microsoft Dynamics business management applications (formerly known as Microsoft Business Solutions). This report focuses on evaluating the costs and benefits associated with deploying Microsoft Dynamics applications in your organization.

Microsoft Dynamics applications

The four Microsoft Dynamics applications provide tight integration with Microsoft technologies such as Windows, .NET, SharePoint Portal Server, SQL Server Reporting Services, Microsoft Office and Visual Studio. While the four products share this underlying integration capability, the products have core strengths that are geared to different business requirements:

- Microsoft Dynamics AX (formerly Axapta) provides support for multiple languages and multiple currencies with core strengths in functionality for mid-sized to large companies in the manufacturing, wholesale, and services industries.
- Microsoft Dynamics GP (formerly Great Plains) strengths lie in delivering financial management capabilities that can be deployed in a broad range of industries.
- Microsoft Dynamics SL (formerly Solomon) provides financial management capabilities with a particular emphasis on serving the needs of professional services organizations. Solomon provides capabilities that enable organizations to integrate project management tools with accounting systems to streamline the billing and accounts receivables process.

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- Microsoft Dynamics NAV (formerly Navision) delivers financial management applications for small to mid-sized companies in the manufacturing and distribution business and is available in 40 languages.

The architecture of the Microsoft Dynamics applications provides the flexibility to support a number of deployment scenarios that can be implemented and scaled to suit the needs of the business. These deployment scenarios typically fall under three categories: centralized, federalized, and decentralized.

Centralized deployment

In this scenario, an organization with dispersed office locations deploys an instance of the Microsoft Dynamics application in each office. This provides a shared, integrated solution among the offices, allowing business processes to be standardized and business data to be rolled up for financial consolidation and reporting. As Microsoft Dynamics applications are available in multiple languages and support multiple currencies, offices can install the localization features necessary for their geographic location, while also being able to share information with other offices on the enterprise network.

Six Flags operates 39 theme and water parks in eight countries. As new locations were added, local management chose different systems to run their operations. The lack of integration between the systems turned the financial consolidation and reporting process into a labor-intensive procedure that delayed the delivery of critical information. Since it has moved to a centralized deployment of Microsoft Dynamics GP, Six Flags has gained efficiencies in inventory management, financial consolidation, and employee productivity that provide an annual savings of nearly \$1 million.

Federated deployment

In this type of implementation, headquarters runs one Enterprise Resource Planning (ERP) system, and the satellite offices run different systems that are more attuned to their business operations. Integration is established between the systems so that data can be shared. For example, a company has an established SAP system in its headquarters and acquires subsidiaries in other countries to handle local sales and distribution. In this case, the costs of implementing a SAP system in each location are prohibitive, and the IT staff at the local level does not have the necessary skills for ongoing support. Implementing a Microsoft Dynamics product at these sites enables the company to keep IT costs down while also providing the offices with a flexible system that can be customized to run local operations.

CarboGen is pharmaceutical services provider that develops materials for use in the clinical trial phase of drug development. While its parent company, Solutia, runs SAP, CarboGen uses Microsoft Dynamics AX to manage and track its projects. The system enables CarboGen to connect its project, sales and manufacturing processes and uses Microsoft BizTalk Server to transfer customer data to Solutia's CRM system. Two-way transfer of information to the CRM system provides central access of customer information to all Solutia divisions.

Decentralized deployment

Companies comprised of multiple autonomous business units that do not have interdependent business processes, but need to easily share financial data, can use Microsoft Dynamics as part of a decentralized deployment.

A multinational agricultural company uses Microsoft Dynamics GP in a decentralized configuration to connect its market operations in eleven countries with the headquarters SAP system. This enables the offices to run their operations independently and roll their numbers up to headquarters for monthly consolidation. Data from Microsoft Dynamics GP is summarized in reports built with Microsoft FRx. These reports are then uploaded into a Hyperion financial reporting system at headquarters for enterprisewide financial consolidation and reporting.

In this type of implementation, regional or satellite offices use Microsoft Dynamics applications to run their operations and integrate with the headquarters ERP system to consolidate data across the organization.

Integration strategies

One of the key elements to improving business efficiency is to enable data to more easily flow across the enterprise. Microsoft Dynamics applications provide a variety of mechanisms and tools that can be used to form connections between systems. Integration can be established between the systems contained within the enterprise, or can also be extended out to connect with suppliers, partners, and customers.

Metabo, a leading electric power tool manufacturer has a SAP system in its headquarters, and runs Microsoft Dynamics NAV in many of its 22 international subsidiaries. The systems are integrated through an electronic data interface (EDI) link, which enables order management to be consolidated across the organization. For example, if a customer places an order with a local office that does not have the item in stock, the order is automatically forwarded to headquarters for fulfillment.

The Microsoft Dynamics applications support Web services, and beginning with the release of Microsoft Dynamics GP in late 2005, Microsoft is including XML interfaces that will make it easier for developers to build connections to other systems. The variety of data exchange capabilities available with Microsoft Dynamics provides businesses with a host of options from which to choose and tailor to meet the exact requirements of the business situation, and the needs of the user community. Available options include:

- Commerce Gateway. Automated links can be created to transfer business documents to and from the Microsoft Dynamics application to the headquarters or third-party business systems. Commerce Gateway uses the mapping and data transfer technology in Microsoft BizTalk Server to exchange information between systems and supports multiple data formats such as XML, EDIFACT, SAP IDOC, and flat files.
- Microsoft FRx. Financial data can be pulled from Microsoft Dynamics applications and consolidated into reports using this reporting module. Data in

the reports can be exported to other applications via OLAP cubes, XBRL files, or imported into Microsoft Excel, Word, and Access.

- **XBRL.** Financial data can be transferred using the Extensible Business Reporting Language (XBRL), an XML-based specification. Using the standard, financial statements from Microsoft Dynamics applications can be exported and delivered with its structural integrity intact.
- **Microsoft Analysis Services.** Data can be extracted from the Microsoft Dynamics application database in the form of SQL Server data analysis cubes. The cubes can be imported and opened in applications such as Microsoft PowerPoint and Excel.
- **Microsoft BizTalk.** Data can be transferred using BizTalk adapters and mapping tools to form a direct link between office locations. Data can also be moved in XML document format and transferred to a variety of business systems without requiring platform or application-specific modification.
- **Development tools.** Microsoft Dynamics applications contain a number of development tools that can be used to create real-time or batch systems integration. These tools include eConnect and Integration Manager.

The KCI Konecranes global services group, which provides services for overhead industrial cranes, connects the operations of its 185 branches with Microsoft Dynamics GP. The software is housed in a data center and distributed to more than 250 North American users in a thin-client implementation using Citrix over a virtual private network. The company plans to extend the deployment out to two additional data centers that will service its European and Asian offices. Consolidating its operations on a single system has provided KCI with a number of benefits including a 15 to 20 percent increase in collections due to higher visibility of its receivables, and more than \$1 million in procurement savings gained from streamlining its purchasing process.

Advantages of Microsoft Dynamics integration capabilities

The desire to contain IT costs and provide users with a system that is more attuned with their skill level and their business requirements, are the chief drivers for implementing Microsoft Dynamics applications. In interviews Nucleus conducted with companies that deployed Microsoft Dynamics as part of a federated or decentralized corporate strategy, the key advantages cited include:

- **Flexibility.** The approach enables divisional offices to conduct business in the manner that makes the most sense to meet its specific requirements. It provides the local office with the autonomy it needs to support the business processes and culture of the office, fits with the infrastructure and legal regulations of the geographic location.
- **Lower cost.** Deploying and supporting a Microsoft Dynamics application, rather than an ERP system such as SAP or Oracle, provides a faster ramp-up, lower license costs, and lower ongoing support costs.
- **Data consolidation.** Integration with the headquarters ERP system enables local offices to roll-up data so that financial consolidation can be accomplished efficiently. As the data can be transferred up to headquarters electronically, this improves the speed of financial reporting by automating manual consolidation processes that can delay the month, quarter, and year-end reporting of financial data.

KEY BENEFIT AREAS

Nucleus Research has identified two key areas where Microsoft Dynamics applications can deliver returns: improved technology management and improved process management.

Improved technology management

One of the key challenges most organizations face is striking a balance between containing IT costs and building an effective technology infrastructure to efficiently run and grow their business. Mergers and acquisitions compound the challenge as new locations are added to the enterprise and systems must be adapted to enable the exchange of business information among all constituencies.

User needs and technology skill levels differ across office locations, and IT resources also vary. Another key factor is time. Enterprise applications touch multiple aspects of an organization's business operations and embarking on an ERP deployment requires a significant time and resource commitment for proper planning and execution.

While the headquarters of a corporation has the resources available to support a large-scale ERP implementation, satellite facilities often do not. Deploying Microsoft Dynamics applications at these locations provides a faster implementation schedule and requires a lower number of IT personnel to support the system on an ongoing basis than would be necessary if a company deployed multiple instances of the headquarters system.

Nucleus spoke to several companies that chose Microsoft Dynamics applications for its field offices as the sites required technology with the flexibility to accommodate specific business, infrastructure, or language requirements and did not have the luxury of employing on-site IT expertise at each location.

An energy company installed Microsoft Dynamics SL in 30 of its field locations as the technology provided a low cost, flexible system that could be adapted to the business needs and language requirements of each office. While the headquarters runs an SAP system, the remote locations did not need a system of that size, and Microsoft Dynamics SL provided the best fit for their purpose. IT support is delivered to the locations by just two support people in headquarters who have built centralized customizations and controls into the system to ensure standardization of business processes, such as audit and credit controls.

Ongoing technology management savings can be delivered through lower license and maintenance costs, reducing or maintaining existing IT support staff, and reducing integration costs by leveraging the standards-based capabilities contained within the Microsoft Dynamics applications.

Key returns from improved technology management include:

- Decreased development time
- Decreased development costs
- Reduced/redeployed development staff
- Reduced integration costs

- Reduced hardware costs
- Reduced license costs
- Reduced maintenance costs

Improved process management

Business process improvements achieved with Microsoft Dynamics applications are driven through productivity enhancements that reduce the time it takes to complete day-to-day tasks. Familiarity with the Microsoft user interface provides an easy transition for users, enabling them to feel comfortable and be quickly productive with the system. Integration with the Microsoft Office applications, such as Word and Excel, provides an easy means to extract business data and automate processes such as generating customer letters or emails on orders.

Self-sufficiency is another key benefit that users noted. Using the Microsoft Dynamics application locally provides them with the autonomy to structure the system to meet their local business requirements, rather than spending time adapting their processes to fit the headquarter's ERP system. This enables them to run their operations in an independent fashion, while also keeping headquarters happy by delivering their financial and operational data in a timely manner.

A multinational agricultural company uses Microsoft Dynamics GP in a hub-and-spoke configuration to connect its market operations in eleven countries with the headquarters SAP system. This enables the offices to run their operations independently and roll their numbers up to headquarters for monthly consolidation. Data from Microsoft Dynamics GP is summarized in reports built with Microsoft FRx. These reports are then uploaded into the headquarters Hyperion system for enterprise-wide financial consolidation and reporting.

Companies that Nucleus interviewed reported that they had improved their access and visibility in their operational data with Microsoft Dynamics applications. Centralized storage of customer information enabled one company to reduce its average customer service call time from 20 minutes to 3 minutes. Customer service personnel can now access all relevant customer data in a single location, enabling them to provide faster answers to customer inquiries.

MAAX Corporation is a leading manufacturer of bathroom products, kitchen cabinets and spas. Its spa business operates divisional plants in Arizona, British Columbia, and Ontario. Needing to replace aging systems at the divisions, the company deployed Microsoft Dynamics GP in each location and standardized business processes across the sites. The company experienced an ROI of 16 percent with a 16-month payback period through benefits such as a 10 to 15 percent reduction in raw materials inventory across the three divisions. In addition the company has reduced its days sales outstanding rate, and improved its ability to track warranty claims, which enabled a reduction in overpayments due to invalid claims.

Local offices can also reduce the time it takes to produce reports as Microsoft Dynamics applications store data in a central location, making it easier to find.

This eliminates the time associated with hunting down data from multiple systems, which adds considerable time to the reporting process. In addition, they can use Microsoft reporting technology to build their own reports rather than relying on assistance from the IT staff.

A subsidiary of a \$2.4 billion global multi-channel retailer has cut the time it takes to conduct its monthly financial consolidating time in half with Microsoft Dynamics GP. Financial information from Microsoft Dynamics GP is uploaded to the parent company using a macro that brings it directly into a PeopleSoft system. Microsoft Dynamics GP has enabled the subsidiary to improve its local operations by streamlining its accounting and customer service operations, while also enabling it to adhere to corporate guidelines for financial reporting.

Key returns from improved process management include:

- Increased productivity
- Reduced accounting and auditing costs
- Improved compliance and auditing process
- Improved financial consolidation process
- Improved data access and report generation process

KEY COST AREAS

Nucleus has identified the following key cost categories that should be considered when evaluating the potential return from deploying Microsoft Dynamics applications. These categories include both initial deployment costs and the ongoing costs for support and maintenance of the system.

Software

Key software costs include the license and maintenance costs of the Microsoft Dynamics applications, as well as any supporting Microsoft technology that will be part of the deployment. This could include, for example, Microsoft BizTalk Server, Microsoft SQL Server, and any operating system upgrades that are required.

Hardware

The number of physical servers needed to support a Microsoft Dynamics deployment will depend on the number of users, performance goals, and the kind of hardware chosen to support the deployment.

Consulting

Consulting costs will depend upon the deployment scenario, the level of internal IT staff expertise, and regional variations in consultants' hourly rates. In most cases, consulting costs should be lower than competing products as Microsoft-skilled IT workers are available at a lower cost, and the faster deployment time of an Microsoft Dynamics application reduces overall consulting costs.

Personnel

In addition to IT staff time required to plan and deploy Microsoft Dynamics applications, resources will also be needed to support the application on an ongoing basis. In addition, business users may also need to work with IT staff to define and review business processes that will be automated with the system.

Training

In calculating the training costs, organizations should include the value of staff time spent in training sessions, as well as any costs for training facilities, travel, or trainer costs. Nucleus has found that training time for employees varies depending on the technical skill level of the employee and their familiarity with Microsoft technology.