

Solving the State ERP Puzzle

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But solution providers and integrators are bringing clarity to the ERP puzzle, and states are biting, convinced that ERP won't be an excessive burden on their resources or a daunting drain on their dollars. In fact, VARs are proving that ERP is the surest way for states to collect more tax dollars, pay vendors, catch deadbeat dads and achieve any number of other tasks—all either revenue-producing or cost-saving. In addition, those older, costly legacy systems are getting replaced. ERP's shared-services tools reduce administrative costs, allowing employees more autonomy in pursuing routine tasks, such as job-applicant screening and driver's-license processing. In other words, solution providers are touting ERP as a money-maker, not a revenue-drainer.

Take Accenture, a solution provider that's seeing a great surge of ERP interest from state-government customers. The company is already working on ERP projects with the states of Ohio and Washington, and it's tracking ERP opportunities in Tennessee and New York as well.

"There's a lot of pent-up demand for this, " says Mark Howard, the Denver-based global program director for government finance and performance management at Accenture. He also coordinates support for Accenture's public-sector ERP projects globally."What's happening is a continuation of what started in the late 1990s. By 2001, the state-revenue picture looked somewhat cloudy, and putting food on the table for kids on state assistance was more important than implementing ERP. But the revenue picture has improved, and ERP is now back on the table, " Howard says.

At a high level, ERP projects feature multimodule applications that cover a wide range of business operations, such as payment collections, inventory oversight, vendor interaction, customer service and order tracking. In many cases, they serve as the spine of government IT. These solutions though often demand that the organizational structure of a state government be revamped to ensure a successful transition.

While there are no exact numbers for state ERP market share or growth, industry execs say it's clearly a burgeoning market. Cambridge, Mass.-based market researcher Forrester predicts a compound annual growth rate of 4.2 percent through 2008 for ERP solution packages. The ERP market is now worth \$21 billion.

But many also caution that challenges exist when it comes to providing ERP solutions. In addition to much longer implementation schedules, these expensive projects also can easily become complex with customization and must be managed accordingly. (See "ERP Challenges To Keep In Mind, " page 14.)Pain Points

Jim Krouse, manager of state-and-local government market analysis for Reston, Va.-based researcher Input, cautions that while ERP projects are touted as the "next big wave" of technology investment, there is work to be done for many states before going down that path. "Unfortunately, the

systems are large and cumbersome for agencies to implement, and, most of all, expensive. More efforts for centralizing IT authority and consolidating operations must be done in many jurisdictions before a comprehensive ERP application can be tackled, " Krouse says. "The most likely scenario is that ERP will be put into place in stages, with payroll functions likely being the first phase. Additional phases will be addressed as the centralization and consolidation efforts are accomplished."But that isn't stopping some states from aggressively pursuing the deployment of ERP solutions.

"States are implementing ERP projects for many reasons, " says Bishwajeet Chatterjee, president of CNSI, a Rockville, Md.-based integrator that has worked on ERP projects for customers such as the state of Maine. "They need to improve, update or replace their legacy equipment. They need to consolidate multiple standalone systems that perform similar functions. And they need to meet higher regulatory standards, such as Sarbanes-Oxley and HIPAA."There's another value proposition: the expanded opportunity to introduce new, commercial, off-the-shelf (COTS) solutions that will improve agency operations, either immediately or in the near future.

"Commercial, off-the-shelf solutions allow for functionality that would be impossible or costly to retrofit into a legacy environment, " Chatterjee says. "Also, COTS software often includes features that may not be used today but could be turned on in the future to expand the use of the product. ERP can provide states with a single solution that covers multiple areas. You can use Oracle's finance and HR solutions together. That means there's only one technology to adapt, one platform and one integrated tech-support team."The Dollar FactorRedwood Shores, Calif.-based Oracle is seeing a huge surge of interest in these solutions among state customers, with more than 33 running at least some ERP-style application in at least one state agency. Right now, 19 of its state-government customers are considering launching ERP. "A new culture of leadership

and management is evolving as new policy-makers assume the mantles of leadership, " says J.D. Williams, Oracle's director of state and local government markets. "A single source of truth that can be provided by integrated enterprise information systems is needed to give these managers and policy-makers the information to more effectively run governments."North Dakota, among other states, is using Oracle's ERP tools to standardize its public-university system and agencies, saving \$9.9 million annually in the process. And Delaware is using Oracle's products to replace paper-based procedures within its human-resources operations in agencies, schools and legislative bodies.

Herndon, Va.-based DLT Solutions, a solution provider and Oracle partner on state ERP projects, is finding much interest in ERP as a means of managing complex financial responsibilities. But, as with any large project, there are challenges and pitfalls to avoid, especially since state customers often want to implement ERP in smaller stages with COTS products."Once you start down the path of customization, you open yourself up to expensive, unforeseen hurdles, not to mention 'scope creep' as conditions, trends and administrations change, " says Rick Marcotte, president and CEO at DLT. "Integrators walk a fine line between what is realistically achievable and what the states are requiring to win a contract. Our philosophy has been to err on the conservative side in what we're able to deliver and to set realistic expectations about the cost and scope of customization. We've walked away from some contracts that appeared to be lucrative on the surface but could become quagmires down the road."Ohio officials looked into ERP more than six years ago when Governor Bob Taft gathered private executives and state employees into management-improvement teams. The result has been a project in which solution provider Accenture was recently selected to team up with Oracle.This December, the first implementation to result from that partnership will go live for the state's human-resources

employees. A solution for the finance group is set to launch in July 2007.

"We developed over 2, 100 requirements back when we did our business-needs analysis. We have been working with Accenture and the other team members to ensure that we will roll it out the way we expected to, " says Mary Carroll, CIO of the state of Ohio. "But we're also paying a good deal of attention to change management. We have put in place what we call agency implementation team leads, and we have a lot of communications between the project office and the agency teams." Early this year, the state of Wisconsin came out with a bid for that state's ERP project. Wisconsin CIO Matt Miszewski says he expects the ERP implementation to be staggered over the next five years. With the reduction in duplicate systems, the state expects to save \$513 million over 10 years. "For us, that's a compelling case to go ahead and dive in, " Miszewski says. "But there's a lot of investment involved, too. We've been meeting with our business areas for the past four months to make sure we understand their business model so the system we implement can support them." These lengthy projects though prove fruitful for the solution providers and integrators involved. New York-based solution provider Deloitte Consulting found itself in the midst of a high-cost ERP project—\$250 million—for the Commonwealth of Pennsylvania several years ago. Most projects, executives there say, run \$50 million to \$100 million. "The ERP trend accelerated during Y2K, as states had to modify or replace their legacy systems to handle the new century, " says Bob Campbell, principal, vice chairman and national managing director of U.S. public-sector business for Deloitte. "But Y2K was followed by state budget shortfalls coupled with the [Sept. 11] terrorism attacks, which put a hold on state spending on new systems.

"These measures essentially created a delay for ERP-styled administrative projects, in spite of the growing demand. But today, some states are looking for ways to make projects pay

for themselves by launching them first in the finance/revenue-producing parts of their agencies. When you can convince state officials that the IT solutions can actually generate revenue and pay for themselves, internal customer resistance is broken down. "We're working with the state of Florida to use ERP software for integrated tax administration. The system has already paid for itself several times over," Campbell says. "In addition, we have been selected by Florida to configure ERP for another large revenue-producing area—child-support enforcement collections and management." Accenture has also found this to be key. "Now, state-government customers know they need to do administrative processes better," Howard says. Showing Results After implementation, the challenge is to prove that the ERP is a revenue-generating tool. "It can be as mundane as showing how much more quickly check requests are turning over. It can be as critical as pointing out how tax-revenue collections are improving," Howard says. "We think ultimately we'll be able to show that [ERP] improves significantly the way state government does business."