Aberdeen Group
Best Practices
Offshore Outsourcing

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Offshore Co-Sourcing Speeds Weyerhaeuser SAP R/3 Implementation Initiative

Executive Summary

Large enterprises spend significant portions of their IT budgets maintaining hundreds, if not thousands, of different applications. One answer to this problem is to implement standard enterprise applications. In this way, companies can reduce IT operating costs and gain additional business benefits by leveraging new technologies.

Weyerhaeuser was looking to accomplish this goal in early 2000 when the company undertook its Enterprise Application Suite (EAS) initiative — that is, bring the IT application landscape into a set of standard applications supporting common business practices. One of the key components of this initiative is the use of SAP R/3. As part of the initiative, Weyerhaeuser identified Wipro Technologies (Wipro), one of India's largest software services suppliers, as a strategic partner. The success of the project — one of several that Wipro has taken on for Weyerhaeuser — proved the validity and cost-effectiveness of on-site/offshore SAP implementation and post-implementation support.

Best Practices in Offshore Outsourcing

Company Name

Weyerhaeuser, Inc.

Industry

Forest Products

Service Supplier

Wipro Technologies

Services

Complete application life cycle services

Cost Savings

$12 million in application life cycle savings annualized over three years

Additional Benefits

- Consistently high internal customer satisfaction ratings
- Replaced 80% outside contractors with lower cost offshore resources
- Set the stage for the "One Company" road map and process reliability goals

Company Background

Founded in 1900, Weyerhaeuser is one of the world's leading forest product companies. The $21 billion company employs nearly 60,000 people in 18 countries and is consistently ranked number one in its industry in categories ranging from lumber and engineered lumber products production to social responsibility.

From its headquarters in Federal Way, WA, Weyerhaeuser produces and sells forest products ranging from logs to building products to pulp, paper, and packaging.

The company also operates a business that collects and recycles wastepaper, boxes, and newsprint. In addition, it is in the home building and land development business. Weyerhaeuser has been ranked in the Fortune 200 since 1956 and is among the top U.S. exporters overall.

Key Business Challenges

Weyerhaeuser was using a number of heterogeneous systems across its various mills and divisions. Managing this "aging fleet" of non-integrated applications made controlling the various business processes difficult. The company wanted to adopt a set of common enterprise applications to manage the business processes in order to reduce maintenance and operations costs and control the business more effectively by leveraging emerging technologies.

The company identified SAP as one of the key applications that would be used to bring standardization and cost management to its application environment. For example, TrusJoist (a business unit of Weyerhaeuser) uses SAP R/3 Version 3.1h across finance, materials management, production planning, plant maintenance, and sales and distribution. The system is being used in plants across Canada and the U.S. To support this and other businesses, Weyerhaeuser currently has several SAP initiatives running concurrently, including the following projects:

- *Enterprise data definition project* — As a foundation for implementing SAP R/3 across the enterprise using GlobalASAP methodology, the work of standardizing the organization structure and master data in SAP was taken up as an enterprise definition project.
- *SAP R/3 implementation MPS/Fi project* — The MPS/Fi (Materials, Procurement, Stores, and Finance) project was undertaken to implement SAP R/3 at all the primary paper, pulp, and packaging mills, as well as at the supporting business and service centers. The SAP R/3 modules being implemented are plant maintenance, finance and control, materials management, and time management.
- *Production support and maintenance* — BEPS (Business Enterprise Process Support) is the enterprisewide "One Company" support group, maintaining the standardization of business processes and support services across Weyerhaeuser. This is currently supporting more than 2,500 personnel using SAP.

Wipro has played a significant role in each of these initiatives, helping Weyerhaeuser to achieve business value in the process. Specifically, for the MPS/Fi project, Weyerhaeuser faced the challenge of completing rollouts on a very tight schedule and with skilled resource constraints. The entire project was divided into various waves or phases, with implementation being carried out for an identified number of mills in each wave.

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Selection Process

The Weyerhaeuser/Wipro relationship started in 1999, when the supplier was asked to do a pilot OS/VS Cobol-to-Cobol II conversion and study and map the processes of the company's entire financial applications suite. Two Wipro consultants did the work on-site. The quality results of the project were such that Weyerhaeuser decided to move the application maintenance phase of the project offshore.

The maintenance project ultimately led to the establishment of the Weyerhaeuser India Development Center (WIDC), which initially had a staff of four off-site engineers. Today, the total number of dedicated Wipro resources providing various application life cycle services to Weyerhaeuser averages around 230 individuals, with as many as half working on-site at any one time. Regarding the MPS/Fi project, in wave zero of the project, Wipro was given a pilot implementation to be carried out. Wipro was faced with the challenge of delivering a large number of RICE (reports and forms, interface, conversions, and extensions) objects, in a very short period.

Governance

Like all other Weyerhaeuser initiatives involving Wipro, the SAP R/3 implementation project was managed under the auspices of the company's Co-Sourcing Program. Organized in April 2000 and managed by Shawn Awan, the program is set up so that Weyerhaeuser and its preferred suppliers are jointly responsible for specific projects.

Under the program, Weyerhaeuser and Wipro — the company's first Co-Sourcing program partner — maintain what Awan refers to as an "equal partner" relationship in which the two parties share all aspects of delivery responsibility. Engagements tend to be long term and usually last six months or more. Typically, they are structured around specific business applications and are based on clearly defined deliverables or service levels. Contracts are either time- and materials-based, with target service levels and fixed labor rates; deliverables- or milestone-based; or fixed-price — depending on the project.

Both parties are responsible for completing the work and internal Weyerhaeuser customer satisfaction, and they also share a financial responsibility for successful, timely completion. Suppliers are responsible for managing their own staff, processes, methodologies, and work performance. Weyerhaeuser is responsible for defining work requirements and accepting deliverables. All engagements, including deliverables, are covered under Weyerhaeuser intellectual property management policies and data security policies.

The supporting infrastructure varies according to each engagement. In some cases, Wipro offshore staff directly log on to Weyerhaeuser development environments, which is the typical process for mainframe application maintenance and support

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work. Client-server-based projects, being more complex, occur in replicated offshore development environments and incorporate a higher percentage of on-site staff.

Currently, Wipro has two "floating" resources assigned to the Co-Sourcing organization that serve as on-site coordinators for a number of what might be called routine WIDC-based projects. For more complex engagements, however, the supplier assigns a dedicated on-site project manager to work directly with the internal client application owners.

For example, on the SAP R/3 implementation initiative, the on-site team consists of a Wipro on-site project manager, up to nine functional consultants, and two technical consultants, whereas the offshore team consists of an offshore project manager, four functional consultants, and up to 10 technical consultants. A two-way continuous communication between on-site and offshore teams helps deliver objects in reduced cycle time with highest quality. Wipro's large available pool of resources enabled quick engagement and disengagement of resources at the offshore site.

Results Achieved

With the growth and evolution of the Weyerhaeuser/Wipro relationship, the supplier has increasingly taken on different engagements. Today, Wipro provides a full complement of application life cycle services to Weyerhaeuser, including:

- *Maintenance and Enhancement* — Following a period of knowledge transfer, Wipro assumes responsibility for providing corrective maintenance to and/or enhancements for individual applications using a combination of on-site and offshore resources.
- *Production Support* — Wipro provides complete 24×7 application production support using both on-site and offshore resources.
- *Application and Data Conversion* — Wipro teams perform data conversions and system components modifications while migrating applications from one language or platform to another and maintaining consistent functionality.
- *Development* — From requirements gathering to design to implementation and rollout, Wipro delivers full application development services to Weyerhaeuser internal customers.
- *ERP Package Customization and Implementation* — Combining on-site and offshore resources, Wipro ERP specialists provide SAP implementation and post-implementation support services.
- *Quality Assurance and Testing* — Although Weyerhaeuser maintains responsibility for and control over acceptance testing, Wipro provides a number of performance and scalability, functional, compatibility, localization, and Web environment tests for a range of business applications.

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Awan notes that initially Wipro was expected to perform only technical specifications and build and test activities. As Weyerhaeuser became comfortable with the Wipro delivery model, and because the project faced a shortage of functional resources, Wipro took on additional responsibilities, including primary roles in functional specification building, interface designing, and participation in all aspects of interface testing.

Working 24×7 with an on-site/offshore model, the team achieved its target in the specified time period. After the successful pilot implementation, Wipro was assigned the future wave of rollouts. Wipro's large available pool of resources enabled quick engagement and disengagement of resources at the offshore site. As a result, Wipro now performs design, building and testing of RICE and forms in SAP R/3, business integration testing (BIT), operation readiness testing (ORT), and conversion and cutover activities.

Throughout the initiative, Wipro has the advantage of having developed the objects in the past. Thus, the team identifies and resolves most of the issues and data errors quickly. Wipro's extensive experience in this area provides a strong base for this time-critical activity. Moreover, Awan also notes that all objects delivered to date have been on time and under budget.

Anwan also stated that as a result of Wipro's involvement in the SAP initiative, the company has been able to move internal staff from legacy support to new projects while, as he puts it, "doing no harm" — i.e., no layoffs — to the company's IS organization. Freed from legacy maintenance and related activities, Weyerhaeuser's internal staff are now able to spend more time interacting with internal Weyerhaeuser customers.

Lessons Learned

The Weyerhaeuser Co-Sourcing model is the result of a number of commonly cited, but often difficult to replicate factors that characterize successful offshore initiatives. For example, overcoming internal resistance to any type of outsourcing, especially offshore outsourcing, requires executive sponsorship and a willingness on the part of program managers to evangelize. At Weyerhaeuser, Glenn Kloss, director of application development services, fulfilled that role, providing the business justification, as well as a plan for redirecting internal staff toward strategic and technically challenging activities.

Kloss and his team also traveled to India to meet with Wipro executives to ensure that the supplier was capable of and committed to creating a long-term relationship. In addition, Weyerhaeuser set up and continues to hold a series of cultural awareness training sessions for internal staff. This contrasts with offshore initiatives in which clients leave the challenge of achieving cultural compatibility to suppliers. Nor did Weyerhaeuser simply set the program in motion and let it operate on autopilot. The Co-Sourcing group conducts regular internal Weyerhaeuser client

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satisfaction surveys and monitors Wipro's performance against service-level metrics such as time-to-deploy on development projects, time-to-resolution on support and maintenance deliverables, and meeting cost estimates. In terms of the former, the program averages 4.2 on a 5-point scale with five being the highest score. Moreover, according to Awan, Wipro invariably meets or exceeds it service-level metrics.

These and other best practices have enabled Weyerhaeuser to achieve its original goals of cost management and efficient resource utilization. The company has reduced its reliance on individual outside contractors by 80%, resulting in savings of $6.4 million, $20 million, and $24 million, respectively, during the first three years of the program. During the same period, the WIDC and its staff have become extensions of Weyerhaeuser's IT organization.

Aberdeen Conclusions

In the IT services industry, the term co-sourcing is typically reserved for client-supplier relationships where both parties operate at a level of near equality in terms of risk, rewards, and responsibilities. Such relationships are not between true equals, however, nor should they be. The fact remains that clients maintain ultimate responsibility for and ownership of the results of co-sourced initiatives. In addition, clients have the option of terminating supplier contracts if the latter fail to meet commitments.

Nevertheless, successful co-sourcing does require equal effort and responsibility on the part of clients and suppliers, not only for deliverables, but also for establishing and maintaining close working relationships. It is that type of effort that is the basis of the Weyerhaeuser/Wipro relationship — one that has evolved beyond the traditional body-shop approach to offshore outsourcing and on to another level of global service delivery.

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