

CASE STUDY

Consumer Products Manufacturer

Upgraded ERP Software Reduces Systems Customization

Challenge

With continuing pressure to generate a higher percentage of its parent corporation's revenue, this tobacco company needed to ensure that its infrastructure could handle a growing global business, and manage decreasing domestic sales and surging overseas growth.

Solution

Created and implemented an ERP strategy to upgrade and align with the parent company's system, and migrate it to adhere to new European headquarters. Clarkston also developed and conducted training for users worldwide, provided help desk support and closely monitored all business processes to ensure a smooth transition.

Benefits

The new system had 60 percent less customization than the old system, which significantly reduced long-term maintenance costs. Overall benefits include:

- Reduced accounts payable invoicing processing time by 40 percent
- Time spent on month-end closing reduced by 30 percent
- Reduced returns processing time by 50 percent

Challenge

Even with the distinction of being the producer of one of the world's most popular tobacco brands, the client was facing stiff competition in the mid-1990s. In addition, domestic sales were decreasing while overseas sales were increasing. With pressure to generate a higher percentage of their parent corporation's revenue, the client needed to make sure its infrastructure could handle a growing global business.

In 1996, Clarkston Consulting conducted a study to determine if the client's SAP® system could continue to meet the company's requirements. Based on Clarkston's study, the client decided to upgrade its SAP R/2 export logistics system to SAP R/3, a client-server based system. The primary reasons for the upgrade as identified in the study were:

- The client's highly-customized, R/2 mainframe system was extremely expensive to operate. In order to lower its system maintenance costs, the company wanted to migrate away from a customized system to a more standard approach using R/3 applications.
- SAP was eliminating their R/2 support. Migrating to R/3 would ensure a longer support period. In addition, the client's corporate parent standard was R/3, so personnel in other business units knew the system.
- The company was planning to move its headquarters from the United States to Europe. Changing the legal entity in the R/2 system would be complex and time-consuming—if it was even possible.
- In general, upgrading to a system with better functionality would improve employee productivity and reduce costs, thereby enhancing the client's ability to compete globally.

Solution

Clarkston collaborated with the client on the original SAP R/2 installation. The success of that project, coupled with Clarkston's knowledge of the consumer products industry, prompted the client to hire Clarkston for the R/3 upgrade.

Clarkston employed SAP's ASAP™ methodology enhanced by Clarkston's Coherent Speed™ methodology

to map all required business processes of the R/2 system into the standard R/3 system. In most areas, customized R/2 applications were replaced with standard R/3 functionality.

The project was implemented in phases:

- Phase One: Implemented finance (general ledger, accounts receivable, accounts payable), controlling, profitability analysis and purchasing modules.
- Phase Two: Implemented master data (materials, customers, vendors, pricing conditions, etc.).
- Phase Three: Integrated logistics (order management, distribution, manufacturing, inventory, invoicing and export documentation).
- Phase Four: Migrated system from U.S.-based headquarters to European legal entity.
- Phase Five: Supported worldwide system at client headquarters in Europe.

Aspects of both R/2 and R/3 were running simultaneously until phase three. This required multiple interfaces between the two systems so they could communicate with each other until all functions were migrated to R/3. Also, since most users of the R/3 system were located in regional offices worldwide, the client required controls to force checks on order entry, distribution and invoicing. Clarkston enhanced the R/3 logistics flow to perform checks and block documents from further processing until reviewed by headquarters.

Clarkston developed and conducted training for 250 users worldwide, provided help desk support and closely monitored all business processes to ensure a smooth transition to the new system.

Benefits

Clarkston managed a smooth and timely upgrade from R/2 to R/3 seamlessly without any business disruption.

The new system had 60 percent less customization than the old R/2 system, thereby significantly reducing long-term system maintenance costs. Also, because customization was reduced, Clarkston was able to add a new legal entity into the system in less than two months.

Following are a few examples of actual cost savings and deliverables as a result of this project. In the finance department the new R/3 system:

- Reduced accounts payable invoicing processing time by 40 percent.
- Reduced month-end closing time by 30 percent.
- Eliminated the need for inventory reconciliation, which took several employees two days to complete every month under R/2.
- Eliminated daily reconciliation for sales invoices.

In the logistics department the upgrade:

- Increased general productivity by 40 percent due to more useful, timely reports.
- Reduced returns processing time by 50 percent.
- Reduced time to prepare export documents by 70 percent. Under R/2, all documents had to be com-

pleted manually. Clarkston built a custom application so that the documents came off the printer compiled and ready to go.

- Reduced time to update material costs across multiple plants by 60 percent. Clarkston built an interface that streamlined the process for extracting material costs from the source and automatically updating all records in all sites.

Company Profile

The client employs 40,000 people worldwide and has an interest in, operates or owns more than 50 factories. The client owns a 14 percent share of the international market for their product, which is sold in over 160 countries.

Clarkston Consulting is a leading management and technology consulting firm that provides strategic business solutions for clients within the life sciences and consumer products industries worldwide. These market leaders turn to Clarkston to help them bridge the gap between strategy and execution to sustain a competitive advantage. Clarkston is a sought-after business partner because of its recognized industry thought-leadership and superior client relationships, as measured by The Conference Board's survey on client satisfaction. For more information, visit www.clarkstonconsulting.com.