

**INSIGHTS****Driving Optimal Performance from ERP Systems**

*A hybrid model of best practices combined with unique capabilities delivers greatest value for mid-sized companies*

A stock car—in the original sense of the term—was an automobile that had not been modified from its original factory configuration. When NASCAR was first formed in 1948, stock cars were required to be made entirely of parts available to the general public. Other than minor engine adjustments, nothing could be done to elicit the performance prowess we see today.

Then the oil crisis of 1973 ushered in major changes. Large inventories of gas-guzzling stock cars sat unsold. From that point forward, they were allowed to differ significantly from what was available to the public, resulting in modern race cars that are “stock” in name only.

Still, today’s stock cars are built to a strict set of regulations that ensure the engine, chassis, suspension and other components are relatively identical on all vehicles. Fans of other racing series have criticized modern stock car racing for these restrictive regulations that, according to some, impede technological innovation. But supporters argue that the equality of the machinery results in a true test of the driver’s and pit crew’s abilities—not a contest of technological advancement.

In many ways, this test is similar to the one you face in designing your enterprise resource planning (ERP) solution. Companies learned a long time ago that leveraging standard ERP package functionality provides the most benefits with the least risk. Today, ERP vendors even offer out-of-the-box solutions that incorporate industry-specific best practices designed to meet the particular business needs of mid-sized companies. But while these best practices provide considerable advantages (speed, agility, reliability, reduced risk and so on), they also are readily available to your entire field of competitors.

That’s why at Clarkston Consulting, we believe that to gain a measurable lead from your ERP solution you should adopt a hybrid model built on a frame of industry best practices and enhanced with unique capabilities designed to boost your organization’s competitive advantage. Our experienced professionals have achieved breakthroughs in helping mid-sized consumer products and life sciences companies align these added capabilities in a way that improves everything from speed and agility, to financial performance, to overall competitiveness.





*On the road to optimal performance, a hybrid ERP model—best practices plus unique capabilities aligned with your competitive advantage—delivers the greatest results.*

### **Staying ahead of the competition**

Every day, your business competes to win. As a business leader, the challenge is not to devise business strategies or implement systems and processes aimed at the here and now, but rather those that will help your business consistently outperform your competitors over the long haul.

When applying this logic to your ERP solution, the goal should be to implement a system that aligns with your business' strategy for winning in the marketplace. This is especially true for the mid-sized company. That's because today's market challenges—eroding profit margins; decreasing consumer loyalty; increasing pressures from customers, partners and regulatory agencies; and the growing complexity of global operations, to name a few—are most acute for mid-sized companies. You must address these challenges as quickly and effectively as the FORTUNE 500, but without the advantages of their financial and human capital or economies of scale. Furthermore, given the limited time, manpower and expertise available to mid-sized companies, you must confront your challenges in aggregate.

An ERP system is arguably the best tool your company can employ to outpace your competition. It provides the ability to match performance metrics of best-in-class competitors while increasing returns to shareholders. You can achieve:

- Cost reduction by streamlining operations and integrating supply with demand;
- Increased customer satisfaction by reducing out-of-stocks, improving distribution and back-office operations;
- Enhanced compliance by integrating quality systems and production; and
- Reduced product time-to-market by maximizing production operations, improving project management and facilitating collaboration.

Most importantly, you gain a total view of your organization. Like a driver behind the wheel, you can monitor all key supporting systems, respond to changing market conditions and make better, more informed decisions.

With that said, an ERP system is one of the most expensive, complex and time-consuming business implementations your company can undertake. That's why it's critical to implement the system in such a way that allows your business to extract the most value.

### **One size does not fit all**

ERP vendors have invested a considerable amount of time and money developing and incorporating best practices for universal business processes into their applications. For the end user, the adoption of these best practices offers considerable advantages. In short, it allows you to dramatically reduce implementation time and costs, ultimately reducing your total cost of ownership and speeding time to value.

Through the adoption of best practices, inefficient, manual activities are converted into streamlined, structured processes that can be automated and closely monitored. These processes are more consistent, reliable, faster and in control. In addition, by leveraging these time-tested practices, you drive improved performance metrics, reduce the risks associated with any ERP implementation and simplify matters when it's time to upgrade.

Despite the value provided by best practices, however, one size does not fit all. You should view best practices as both an enabler and a constraint. Don't take for granted that out-of-the-box ERP functionality will facilitate your business goals—it may very well be a constraint in an area you want to grow or excel. If you're looking to be a leader in building customer intimacy, a pre-configured customer relationship management application won't likely differentiate you from your competitors. Furthermore, best practices may not enable the flexibility, innovation or other unique solution sets that your company needs to drive the business results you're seeking.

Instead, many companies are implementing unique capabilities that support their market differentiator. The JM Smucker Company, for example, famous for its homemade jams, has implemented a best-in-class IT system that provides visibility into information

across its research and development, manufacturing, supply chain and customer service functions. Unlike many larger companies, the system gives Smucker's visibility into product quality down to the item level, directly supporting its brand strategy to provide "homemade taste, quality and goodness."

Leadership teams need to ask themselves, "What is our business strategy?" and "Where do we think we have the most value in the market?" The answers will help you determine how to strategically approach your ERP planning process. You will be able to see what processes support your business innovation and which do not. You may find, as many companies have, that a best practices configuration will not buoy your organization's core strengths. On the contrary, you may need to consider adopting either a user-defined configuration or a best-of-breed business application or developing new functionality altogether.

### **Know what makes you special**

Even though best practices provide obvious advantages, we often see organizations intent on unnecessarily customizing aspects of their ERP system, either because they feel their company is unique or because there is pride of ownership of home-grown processes. But this approach adds substantial cost and complexity to the implementation process and cuts into the competitive advantage they were trying to gain in the first place. Conversely, by aligning your organization's ERP solution with your business strategy you can avoid significant expense developing unique capabilities that do not add value.

Take for example accounts payable. While there are multiple models, from two-way match, to three-way match, to e-invoicing, to completely paper based, it's rare that a company's core competitive advantage stems from the way it pays its vendors. Unless your company is in the business of creating AP checks at the speed of light and at the lowest possible cost, more than likely, you should adopt a best practices approach for AP. In fact, most, if not all, financial processes lend themselves to a best practices approach.

Innovation, on the other hand, is a prime opportunity to create unique capabilities to help drive your market advantage. After decades without change, baby food companies like Gerber, Novartis, Royal Numico, Nestle, Bristol-Myers Squibb and others are now offering innovative new products to increase sales in

a market that has slowed to a crawl. Gerber, for example, has created a new market segment with its Lil' Entrees meals for toddlers, while Wyeth is reinventing an existing market with improvements to baby formula that help with digestion and allergies. For these companies, their ability to develop unique capabilities that support the research, collaboration, development, packaging and marketing processes for new products— in ways that are different from their competitors—will spell success.



*Maximize your investment. Tailor only the strategic ERP components that enhance your competitive advantage. For everything else, adopt best practices.*

### **Take a business strategy approach...every time**

To align your ERP solution with your business strategy, you must understand your value proposition and objectives. Using a structured process, key business requirements need to be identified, validated and challenged where appropriate. Once you have your strategy in place, you can use that intelligence to drive package selection and evaluate if process adjustments make sense based on whether or not they support your business' strategy.

When deciding where to adopt best practices versus developing unique capabilities, ensure your organization asks the following questions:

#### ***What type of organization do we want to be?***

The well-known book, *The Discipline of Market Leaders*, popularized the idea that companies need to identify and embrace their dominant value proposition as either best cost (productivity and efficiency), best product (innovation and engineering) or best total customer solution (customer intimacy). The idea is that each type of business has specific requirements and functions best when its corporate culture, business operations and leadership style are configured to meet those requirements.

The lessons from this book apply here as well. Before implementing an ERP system that will form the foundation for your business operations, you need to decide what type of company you are or want to be. Do you want to excel at efficiency, innovation or customer intimacy?

Next, translate that vision into your objectives. If you decide customer intimacy is your goal, perhaps you want to consider a best-in-class ERP business intelligence solution that will generate customer scorecards for your distributors, increase visibility throughout the supply chain for greater efficiency, and move toward just-in-time delivery.

A clear focus on your goals and objectives will help to identify what type of return on investment you ultimately want to achieve, whether it's improving order fill rates, reducing manual errors or eliminating redundancies. This will allow you to build metrics into the system and, as everyone knows, you can't manage what you don't measure.

***Is achieving parity with the competition sufficient?***

The inherent value of an ERP solution is gained in the trade off that occurs between the advantages and disadvantages of best practices versus unique capabilities. Best practices provide greater speed, reliability, consistency and control. However, they do not always fuel differentiation or innovation. Unique capabilities, on the other hand, can drive differentiation and innovation, but add cost, complexity and risk. Therefore, best practices should be implemented for processes where all you truly need to achieve is parity with your competitors. Alternatively, a user-defined configuration, a best-of-breed business application or developing new functionality should be considered if you're seeking to gain an advantage from highly unique and innovative business processes.

***How or where does the process add value?***

Determine if the process adds value by being repeatable and creating upper management visibility or by contributing to the innovation process. Gartner contends in its report, *ERP Best Practices: Decision Framework*, that "best practices, by definition, can never lead to value from innovation." We would argue, however, that while it's true best practices add value by creating standardized and repeated use of formalized and predictable processes, they don't necessarily impede innovation. For example, a best practice to move to paperless accounts payable could in turn lead to innovative payment terms, innovative supplier relationships, innovative cash management or innovative purchasing.

***Is our organization willing to adapt existing processes to fit pre-defined processes? If not, why not?***

In order to adopt industry best practices, existing processes inevitably must change to fit a pre-defined configuration. If your organization rejects a pre-defined process, ask yourself why. Did you arrive at that decision after carefully considering a strong business case based on a structured review process? Or is the decision an emotional one?

Every company has a component of a legacy system that was grown organically and done in a very unique or specific way. This understandably creates pride of ownership and a vested interest in maintaining the status quo, but recognize it for what it is. The words, "This is the way we've always done it," should immediately raise a red flag.

***What is the cost associated with remaining the same?***

We often see business leaders accept the cost of remaining the same as a given. But organizations should not only consider the upside benefits of keeping processes the same, but also the downside. There's a tangible cost to complacency, and those costs should be measured. Not surprisingly, in the long run it's often far more expensive to keep a legacy process as opposed to adopting a best practice.

***What are our industry-specific requirements?***

Most ERP implementations seek to address specific vertical or industry requirements as part of their scope. Life sciences companies are looking to address the challenges presented by an increasingly regulated environment, stringent validation requirements and heightened security threats while consumer products companies are searching to find better ways to optimize trade promotions and direct store delivery.

Fortunately, today's ERP solutions are far more sophisticated than yesterday's applications and offer best practices based on horizontally focused pre-defined processes. For example, SAP's Life Sciences solution portfolio provides document management capabilities to help pharmaceutical, medical device and biotechnology companies fully comply with the Current Good Manufacturing Practices (cGMP) and the Food and Drug Administration's 21 CFR Part 11 requirements, as well as stringent European Union regulations.

It's also important to understand your organization's unique requirements within the context of your industry. Your application or interpretation of an industry regulation or process may differ from that of your competitors. Be sure to understand these different requirements before embarking on your vendor selection process.

***How will the adoption of best practices affect outsourcing or our relationships with service providers?***

It's important to consider the effects that a change in a business process will have on your customers, employees and vendors. How will a change within such areas as in inventory management, order fulfillment or quality control affect the level of customer service or the cost of service? Will stakeholders notice a difference, either good or bad?

As you evaluate each best practice, consider how it will improve or complicate those relationships. Having a standardized, simplified and reliable process could make interactions more efficient and reduce errors. On the other hand, processes that are too rigid could prove burdensome for your stakeholders.

**Case in point: Gen-Probe**

Companies that commit to a best practices ERP solution combined with unique capabilities to match their competitive advantage are reaping tremendous benefits. Take for example Gen-Probe Incorporated, which develops, manufactures and markets innovative products used to diagnose human diseases and screen donated blood. They have been on an aggressive growth curve from a mid-market organization to a major provider of diagnostic services.

This rapid growth, however, stressed Gen-Probe's existing systems and processes and put artificial constraints on the company. Its unsupported legacy systems were ill-equipped to handle growing pressures from customers or increasing regulatory requirements. In addition, it lacked a single view of information across its organization—a necessary prerequisite to support product innovation and expansion into new geographical markets.

**ERP solution aligns with business goals**

Gen-Probe knew an ERP solution would address these challenges collectively. As a provider of diagnostic services, it wanted applications that could accommodate FDA and cGMP requirements, as well as improve the ability to provide

timely, accurate information for operational audits. So in 2004, Gen-Probe replaced its existing legacy systems with mySAP Business Suite applications for sales and distribution, project systems, inventory and warehouse management, finance, procurement, and production planning and execution.

With strong executive support, Gen-Probe aligned its ERP solution with its strategic business objectives and adopted best practices as a guiding principle. As a result, they required minimal customization of the my SAP Business Suite, altering less than 5% of the standard functionality.

**Integrated system delivers business value**

Gen-Probe replaced multiple systems into a single integrated solution, increasing automation and resulting in better visibility, improved process integrity and increased data accuracy. It also improved system security and regulatory compliance and reduced the cost of scaling IT capabilities to accommodate company growth.

**Gen-Probe significantly improves performance**

From the start, Gen-Probe established baseline metrics to measure the value of its ERP solution. By Gen-Probe's estimates, it achieved a 63% return on investment and:

- Reduced inventory levels by 14%;
- Improved quality management productivity by 10%;
- Increased purchasing productivity by 5 to 10%;
- Achieved a 51% improvement in shipping throughput; and
- Accelerated financial closes while reducing person-hours by 22%.

Gen-Probe completed the implementation on time and on budget in 11 months. Since then, it has continued to extract additional value from the system by holding interdepartmental meetings to identify ways to continually optimize processes, improve efficiency and move toward a balanced scorecard approach that focuses on high-value improvements.

"Our ERP system has helped us streamline operations, manage growth, generate a single set of numbers and comply with continuously changing regulations," says Ireland. "As a result, we're now performing at a higher level of efficiency and effectiveness than ever before."

### Navigating potential road hazards

Although ERP technology and supporting processes have matured, challenges still exist. It's critical for mid-sized companies to implement right the first time and do it quickly. With the right partner—one that is knowledgeable about your industry and has proven ERP experience—you can minimize risks and realize benefits sooner than ever before.

Some of the common challenges we see mid-sized companies encounter include:

**Defining a Competitive Advantage.** On the road to implementing a hybrid ERP solution, one of the first challenges you may encounter is difficulty recognizing your organization's true competitive advantage. Ultimately, this comes back to a question we raised earlier: What type of organization do you want to be? It's critical to take a close look at your business and identify the essential elements or components that set you apart.

**Creating IT-Business Alignment.** The disconnect between IT implementations and the business strategy is a familiar challenge. While this issue has been on the radar screen for years, we've seen very little improvement. When a disconnect exists, IT investments begin to occur by default rather than by explicit choice. We see this manifest itself as a "nibbling-away-at-the-edges" approach rather than creating IT-business alignment. Consequently, companies justify each IT project one at a time, never giving themselves the opportunity to say, "This is going to be our approach to delivering process value to the company going forward." It's also an underlying cause why mid-sized companies find it difficult to endorse a common ERP solution that has broader reach than just finance. We believe the tides will turn when leaders come to understand that processes drive the value delivered to the business—and that business processes are driven more today than ever before by their company's ERP system.

**Insufficient Process Maturity.** Organizations that rely heavily on Microsoft Excel-based processes that are labor intensive and lack sophistication may run the risk of taking on too much during their ERP implementation. Before you start, conduct a gap analysis of what's required to get from the as-is to the to-be state and ensure the process requirements you've identified are in synch with your end objectives.

**Lack of Executive Support.** Because ERP systems can touch practically every process across a company, there's no escaping the fact that implementing or upgrading those systems means having to instill teamwork, retrain employees and create open lines of two-way communication. At one medical device company, a new ERP solution worked well until the human resources function encountered an issue. Instead of addressing the issue through the centralized project management office, they chose to revert to their legacy system, resulting in manual workarounds, more time and more money. Having strong executive support—a well-known ingredient in ERP success—helps to minimize this type of resistance and keep everyone working together.

Executive support also is critical when it comes to addressing change management issues. Existing processes are developed internally over many years and, as a result, are often more advanced than industry best practices. This may mean, then, that adopting best practices requires your organization to regress in some functional areas. No doubt this retreat will be met with resistance by the owners of those functions. Leaders must keep the focus on aligning functionality with core business goals and the company's overall vision.

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### ***A Building Block of Operational Excellence***

*It's our belief that before an organization can adequately address the external components of business challenges, the internal building blocks must first be in place. These building blocks are enterprise resource planning, supply chain management and business process re-engineering (BPR). Together, they drive what we define as Operational Excellence.*

*ERP forms the foundation for achieving Operational Excellence because it provides access to the information needed to make quick, insightful decisions. A fully integrated ERP platform designed to grow with your business increases efficiency, reduces costs and provides better information for quicker reaction to changing market conditions.*

*On top of a solid ERP base, supply and demand integration provides agility and flexibility, empowering your business to be responsive—developing and offering unique and differentiated products to meet various needs. Top line performance improves because supply chain savings are achieved with lower inventory levels and more cost effective distribution methods. Having a best-in-class supply chain ensures that your products are on the shelf and readily available for purchase, enabling you to increase sales and boost profitability.*

*Business process re-engineering is the third and final component of Operational Excellence. BPR focuses on developing processes that are standardized and simplified, eliminating time and costs that do not contribute to your vision for growth or add value for your customers or consumers. By making certain your business processes have evolved, you'll ensure a realization of the full benefits of your investments in your ERP and supply chain systems.*

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### Still on the Fence

When it comes to adopting an ERP solution, many mid-sized companies are still on the fence despite the proven benefits. Business leaders cite a number of reasons, including resource constraints; memories of difficult IT implementations fraught with cost overruns, missed deadlines and unfulfilled promises; or a belief that they're not big enough to need or have an ERP system.

Yet, in a recent survey conducted by *Consumer Goods Technology* magazine and Clarkston Consulting, 62% of respondents said that it's not possible to achieve best-in-class operating efficiency without a state-of-the-art ERP platform. We agree.

Forward-thinking organizations see an ERP system as a prime opportunity to build and use technology to support their underlying business strategy today while also forming a foundation to support growth in the future. A strategic ERP solution enables visibility across the entire organization. Performance analysis is improved. Agreed upon metrics are readily available so that underperforming areas can be identified and addressed early on. Productivity and efficiency are increased. And leaders gain the ability to respond proactively to changing conditions.

If your organization is still on the fence, consider that in today's increasingly competitive market, every opportunity to get out in front of your competitors should be seized. Implementing an ERP solution that enhances your competitive advantage is one such opportunity.

### Final Insights

Whether you're about to embark on a new ERP initiative or simply looking to realize more value from your existing ERP solution, you must start with your business strategy and competitive advantage. When key business requirements are identified and

validated, you can spot the process adjustments that make sense and support your business—and get better at whatever it is you're good at.

We offer these final insights that can help your organization sharpen its ERP solution strategy:

- One size does not fit all. Organizations must understand when to implement best practices and when to develop added functionality.
- To achieve the most value from an ERP solution, organizations must focus on aligning business processes with business strategy.
- Most companies could gain additional value from their existing ERP solution by redesigning their business processes.
- New-generation ERP solutions, such as those from SAP, are particularly well-suited for mid-sized companies.
- The time to act is now. Today's highly competitive market will only become more so tomorrow.
- Partner for success. Find a partner whose industry experience and commitment to results matches your own. For example, Gen-Probe selected Clarkston as its business strategy implementation partner based on both our SAP and industry experience. We have worked with over half of the top 50 life sciences firms. And since 1991, we have won multiple SAP America Awards of Excellence and undertaken over 400 successful SAP implementations worldwide.

For more information, visit: [www.clarkstonconsulting.com](http://www.clarkstonconsulting.com)

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