

Stick to the plan

The success of an enterprise resource planning (ERP) solution is not just a technology issue, it also depends on people and processes. Jessica Twentyman examines whether it's worth the effort

Enterprise resource planning (ERP) projects tend to attract a storm of bad publicity when they go wrong – just ask the managers at furniture retailer MFI, where problems with an SAP implementation hit the headlines back in 2004.

While it is true, however, that some ERP projects have been disastrous, many more are successful. Implemented well, ERP can enable retailers to streamline business processes, get better visibility into their operations and respond quickly to changing market conditions. All things considered, it might be a big mistake for retailers rule out an ERP project on the basis of a handful of horror stories.

For a start, the modern ERP package has improved significantly in recent years, offering retailers far more in terms of industry-specific features and functions than its predecessors.

"Most ERP systems were originally developed as generic financial management systems or as integrated suites for manufacturing companies, and have fit poorly with the needs of retail companies," says

Janet Sulecki, an analyst with IT market research

company AMR Research. "We are now seeing the emergence of true retail ERP systems that offer broad integrated suites of applications designed to support most of the business requirements of a modern retail company." These include merchandise planning, retail planning and store operation applications, for example (see box, Key ERP retail functions).

More retail-specific functions mean less need for retailers to customise the software product to fit their individual needs – a common cause of problems in ERP projects.

"Bad news makes for good headlines, but in many cases, the problem is not with the software but with how it's implemented," says Richard Mills, industry principal for retail at SAP UK. "Big retailers often want to set up the system to fit how they already work, but we generally advise them not to use too much customisation and configuration, as this complicates implementation hugely, and also makes future upgrades and enhancements very difficult."

That means that, where possible, retailers should re-engineer business processes to fit the software package – again, a common source of ERP hiccups. But no ERP project

can hope to succeed without a lengthy period of up-front business process definition, according to David Llamas, CIO at Harrods.

Since he joined the luxury department store in July 2002, a key part of his role has been overseeing the migration of a number of key legacy back-office systems onto the store's main SAP ERP package. These include systems used by the furniture, school uniform and food hall departments, an expense control system and the order fulfilment system used by Harrods' direct mail business for catalogue and internet sales.

Llamas attributes Harrods' success in this project to the close attention it paid to improving business processes at the earliest stages. "With such a large system, it all starts with business process definition. If you give users a cumbersome route from A to B, you will have errors and mistakes in the system," he says. "You and your team of

consultants need to think upfront about how complex your processes are, what level of data input they require from



users, and what level of control exists around those processes.”

Howdy partner

A good systems integration partner will go a long way to help a retailer get through this often-torturous process. “One of the main issues that I’ve encountered is that retailers simply don’t understand their existing business processes, because those processes have grown up around the constraints presented by legacy systems,” says Andrew Naughton, account manager at SAP Retail specialist Ciber Novasoft. “With no understanding of existing processes, they can’t possibly be expected to understand how they can be improved. The right partner will guide the retail client to an understanding of where it needs to change its business processes, and why it needs to do so,” he adds.

Finding the right partner was key for Ciber Novasoft client Alpha Retail, which runs a number of retail and catering outlets at UK and international airports. Since rolling out an SAP system across 60 stores worldwide in May 2006, Alpha Retail has been able to achieve a number of significant improvements in business operations.

“Before we implemented the new system, each store kept its own data on its own, disaggregated database,” says Jeremy Butler, business process manager at the company.

“Consolidating that data was a painful process and it would take us two weeks simply to confirm financial results at period-end. With the new, integrated system, visibility into both sales and inventory is vastly improved. Sales data from each store is gathered on the hour, every hour and is fed into our data warehouse each day for strategic reporting purposes, so we always have a good idea of where we stand performance-wise.”

However, there was a “lot of nervousness” surrounding the project at Alpha Retail, he admits. And in terms of finding the right implementation partner, Alpha Retail had two false starts, before settling on SAP Retail specialist Ciber Novasoft. “It was third time lucky,” says Butler. “Our first partner didn’t have sufficient retail expertise and our second partner fragmented and its SAP Retail customers left the organisation, but once we’d found the

right people to help us, things went pretty smoothly from there.”

The right approach

If finding the right partner is key, so is taking the right approach to implementation. “Most retailers will choose to steer clear of big-bang retail ERP implementations,” says Sulecki of AMR Research. “Other industries with many years of ERP experience have found that phasing implementation of application modules lets companies take advantage of strong functions today, while laying the groundwork for future adoption of the vendor’s newer capabilities.” This approach also helps lessen the risk of taking on more of a project than an organisation can handle.

That view is supported by Paul Makin,

sales director at Microsoft Dynamics integrator K3. “We’ve found that the best way to tackle ERP projects is what we call ‘staged ERP’ – breaking the implementation into smaller chunks,” he says. It’s the approach K3 recently took at beds retailer Dreams.

“First, we implemented finance applications from the Navision range first, then buying applications, then warehouse and stock management apps, and finally store operations apps,” Makin explains. “The only place to do a ‘Big Bang’ implementation is where a fully integrated system exists but needs to be replaced – and those cases are still relatively rare.”

Despite the bad press, it seems that with collaboration and the right approach to implementation, an ERP project can add significant value to a retailer’s operations.

| Key retail ERP elements | |
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| Elements | Definition/Description |
| Merchandise management | Primary system supporting operational activity at most retailers. Includes set-up, maintenance, and management of items, prices, inventory, vendors and purchase orders. Usually provides key reporting and business intelligence functions. Tight interfaces to other retail applications. |
| Retail planning | Provides broad macro- and micro-planning capabilities at the category or SKU level. Often will drive merchandise allocation strategies and assortment definitions by store and/or merchandise type. Includes price and promotion planning. Advanced systems are underpinned by demand forecasting tools. |
| Supply chain planning and execution | Provides strategic and operational support for external and internal supply chain processes. Includes replenishment, sourcing, product lifecycle management, warehouse management, transportation management, and distributed order management. |
| Store operations | Includes core POS systems as well as store-specific inventory management, returns management, sales audit, perishables management, and labour management. Can include customer management and promotion execution systems. |
| Corporate administration | Provides corporate financials, including general ledger, accounts receivable, accounts payable, and asset management. Also includes corporate-level HR systems. Will often include process management and compliance reporting. |

Source: AMR Research, 2006