

ERP Implementation in the Mid Market Segment



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1. Executive Summary

The opening up of the Indian economy has led to a significant growth of the mid market segment. This growth has been across industry verticals in the manufacturing, retail, services, communication and information technology sectors. This growth and along with that the associated competition and quest for enhancing market share has led the organizations to re-look at its processes and procedures and put in place proper processes enablers and solutions to make its business more efficient and effective.

One of the key solutions to address this requirement is implementation of enterprise resource planning (ERP) systems. The implementation of ERP systems has helped mid sized corporations, significantly improve their business metrics by process optimization, improving the entire supply chain process, integration across functionalities and increasing transparency across the organization. The introduction of ERP in any organization has also helped it move up the value chain in terms of market credibility and building the confidence of its stakeholders.

Most of the mid sized organizations were living with homegrown applications which are non-integrated and on disparate technology architectures. This has resulted in living with redundant technology, loss of support, non availability of critical information at the right time resulting in overall business loss. The key drivers of introducing an ERP solution in a midsized company are introduction of industry standard processes which are already embedded in the application, adopting integration across business functions leading to transparency, access to real time information, analytical reporting for business decisions and adopting state of the art technology. Another key reason for the choice of an ERP vis-à-vis a bespoke development is the speed of implementation resulting in achieving a quicker return on investment.

2. ERP: A panacea for business improvement

The need for an ERP system can be viewed with respect to the organization objectives, key drivers and finally the choice of solution.

Organizations Objectives

The objectives of embarking on an ERP implementation are to:

- Align business objectives with technology solutions
- Evolve in the organizational value chain by enhancing customer confidence and stakeholder commitment
- Achieve better organizations resource and asset utilization.

The Drivers

- Introduce efficiency and improvement of its business processes
- Achieve transparency and availability of data across functions
- Obtain right Information at right time for effective decision making
- Improve utilization of human capital and assets
- Improve financial management
- Cater to requirements of legislations in financial reporting
- Streamline the supply chain processes
- Improve Customer Relationship Management
- Achieve efficiency in organizational reporting
- Ensure data security and data scalability
- Adopt systems that address changing technologies

The Solution

- Introduce process enablers and best practices by adopting standard packaged solutions which have already been implemented across organizations

3. Challenges of an ERP Implementation in the Mid Market

The path treaded by an organization from identifying the need for an ERP till the implementation is a long one. This involves identification of business needs, budgeting for the procurement of product and services, evaluation of various products to suite its business needs, starting the implementation journey and finally adopting the ERP as an organization wide solution.

The challenges that an organization goes through in the ERP journey are primarily:

- **Choice of solution:** This is a critical decision that an organization needs to take. However it is imperative to consider the size of the business operations, the projected scaling in the years to come, geographical spread, nature of business and investment figures as key factors in determining the choice of solution to be adopted.

The key considerations evaluation and selection of an ERP are:

Scalability - ERP solutions are designed to grow with the company. Unlike some stand-alone applications, they do not succumb to volume and change pressures, leaving you to start over from scratch.

Vendor management— Managing a plethora of vendors for customer service is not easy. An integrated suite gives you one solution supplier to work with.

Functionality—Access to the functionality required to run the business over time—at an affordable price point. It may not be the cheapest choice at first—but it will usually be the most economical in the long run as your business needs grow and change.

Reliable service and support—The ability to access affordable service and support is critical. It is easier to support an integrated ERP environment than a mixture of different applications.

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- **Implementation Process:** This is major and time consuming activity which involves analysis of the organizations processes, recommendation of good practices, mapping the processes to the package, data management, implementation and support. The choice of the implementer is a critical factor as the experience of implementation using standard approach and methodology for implementation, Project Management, Change Management are factors of success. Also important are the implementers knowledge of the client's business processes, local conditions etc.

A few things to ponder when planning for ERP

- Which processes are most important now and why?
- Does this system meet our needs or go beyond them?
- Who will be the change champion(s)?
- Who are the stakeholders?
- What is the business culture at our company and what are its strengths?
- What subcultures do we have and what are their strengths?
- How can we apply those strengths to business change?
- What cultural attributes are weak or will interfere with the change?
- What will be the toughest changes, and how will we address them?
- Who will be responsible for change management?

The key considerations for implementation are:

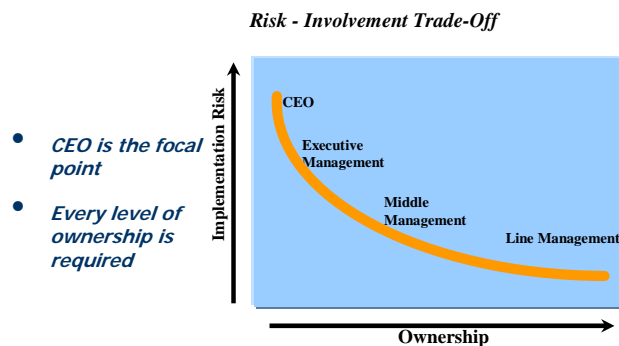
- **Knowledge of application:** ERP's are designed on state of the art architecture using best practice business functions, hence knowledge of the application is essential for the implementer
- **Experience in implementation:** ERP implementation involves adoption of standard approaches, ability to resolve situations and issues and transfer of knowledge. This relate to the experience of the implementer is a key consideration factor.
- **Reliable support:** The ability to provide post implementation support is critical as a lot of issues arise once an organization starts using the application. The implementer necessarily needs to provide the support services after the implementation.

- **Internal Change Management:** An ERP implementation entails changes in processes and reporting structure. Addressing this paradigm shift is a process that the organization has to go through. This will help in achieving the acceptability of the users to the new systems.

There are three drivers of change management:

- **People:** They are the key players in any ERP implementation. The people of the organization will be in the capacity of process owners, application users and administrators of the application. The challenge of an ERP implementation is to achieve the acceptability of the system to the people and for them to perceive the benefits to the organization and to their way of working.
- **Process:** One of the returns on investment is adopting business best practices by virtue of an ERP. These processes impact the efficiency levels to be attained by the organization.
- **Technology:** Implementation of ERP automatically entails adopting technology that will address scalability, death of distance and upgradeability to newer technologies.

- **Commitment of the Organization:** ERP has to be viewed as a process enabler rather than a package to be installed and run. The implementation process is a journey towards achieving organizational efficiency. This demands a strong commitment of the organization's stakeholders throughout the entire process.



4. ERP in the Indian Mid Market Segment

With the opening up of the Indian economy, there has been a phenomenal growth of the mid market companies. These have in the industrial segments like Services, Utilities, Software, Trading, Manufacturing, Pharmaceuticals and Projects etc. Associated with this is rising competition and the need to continuously provide and increase value added services to attract an ever increasing customer base. Improving efficiency and speed of operations, cost optimization, improve manpower utilization, faster access to market trends, need for readily available business intelligence have compelled organizations to adopt processes and solutions that will help sustain their competitive advantage.

Relying on internal manual processes have been a serious handicap and more and more organizations have felt the need and are embarking on investing in automation and process enablers. It is also felt that speed of implementing such process enablers, and having tangible returns on investment, is the key to success in the medium term.

Information Technology frameworks in the name of ERP have been the key solution to address these requirements and an ever increasing number of companies in the mid market have already invested in ERP or are in the process of doing so.

Growth in net sales across sectors

	Sample size	2000-01	2001-02	2002-03	2003-04
Services	258	18.6%	7.8%	-2.1%	19.3%
Software	57	51.2%	16.6%	5.0%	21.5%
Trading	103	15.6%	6.7%	1.3%	25.9%
Other services ³	98	10.7%	5.0%	-10.9%	2.4%

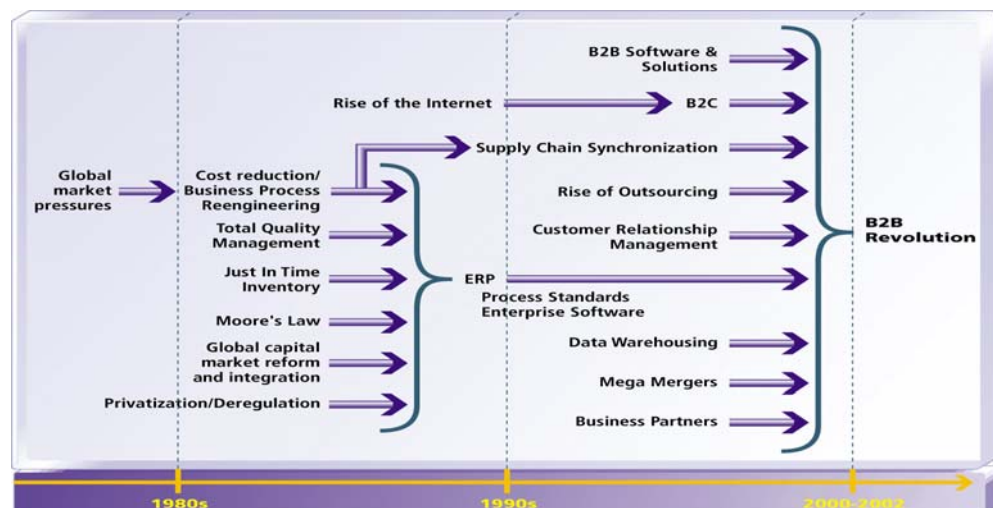
Growth in net sales across sectors

	Sample size	2000-01	2001-02	2002-03	2003-04
Manufacturing	1258	25.8%	-0.6%	8.9%	11.2%
Food & beverages	121	12.0%	3.2%	8.3%	7.0%
Textiles	180	12.0%	-2.7%	4.9%	5.3%
Chemicals	267	41.0%	-2.5%	6.8%	9.2%
Drugs and Pharmaceuticals	92	8.1%	17.4%	13.4%	11.7%
Non-metallic minerals	88	7.0%	5.3%	3.9%	9.3%
Metals and metal products	130	14.3%	-5.0%	20.9%	23.2%
Engineering	223	1.5%	4.5%	6.7%	12.8%
Auto and auto ancillaries	90	9.6%	2.4%	19.2%	18.6%
Miscellaneous	67	15.1%	14.8%	0.9%	4.3%

The manufacturing sector is expected to post a 7.1 percentage point growth compared to the 6.2 per cent growth recorded during 2002-03 – **Central Statistical Organization, India**

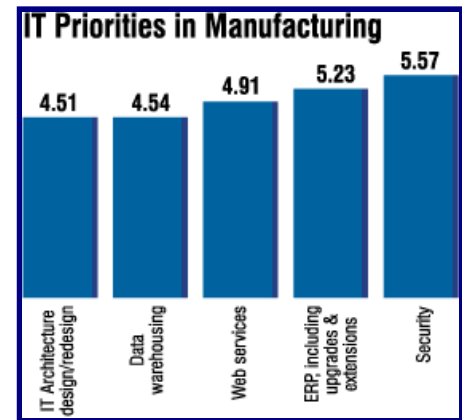
- **Middle market segment:**
Companies having a turnover within USD 300 million (eqv Indian Rupees).
- **About 70% of the Indian corporate clientele are in this segment**
- **Mid Market client expectations:**
Obtain competitive, “fit for purpose” business solutions that would meet or exceed user’s expectations through continual improvement. Solution deployment needs to be rapid and economically justified.
- **Key areas of focus:**
Proven package configuration and implementation
“Fit for purpose” bespoke systems development and rapid deployment for decision support

There has been a gradual change in the business paradigm in India over the last two decades. Companies focus have shifted from requirements and issues of deregulation, Just in Time, TQO to addressing requirements of Process Standardization, Managing Supply Chain from inventory to distributors, electronic interface across business, web based technology and customer relationship management. Growing economies like India which are already on the technology path are rapidly embracing these requirements to climb up the value chain.



ERP solution providers are evolving innovative ways to address this market. Learning from its earlier experiences of some failures, solution providers including product vendors and implementers have designed ways to cater specifically to the needs to the mid market segment.

Application Cost: Newer ways of pricing based on specific modules, number of seats, subscription-based pricing and annual pricing, product support and upgrade have all helped customers get closer to ERP.



LUCKY SEVEN: Responses were rated on a seven-point scale, in which seven was "extremely important" and one was "not at all important". The five highest-rated projects are shown based on a sample of 35 respondents.

Source: Gartner Dataquest

Implementation: Implementation partners have also evolved ways to adopt fast track implementation process to avoid costs, time and effort of the client. These include adopting processes defined in the ERP itself, continual training during implementation for faster knowledge transfer, modular implementation, workshop driven approach, post implementation support etc.

Time taken for ERP rollout	
Variable	All
> 36 months	3
24-36 months	15
18-24 months	23
6-18 months	46
< 6 months	10
Not specified	3
Sample size	69
Source: IDC	

Percentage of site installations by organization revenue, 2001	
Organization revenue	2001(%share)
< Rs 50 crore	25
Rs 50 crore–Rs 250 crore	32
Rs 250 crore–Rs 500 crore	22
Rs 500 crore–Rs 1,000 crore	11
> Rs 1,000 crore	10
Total	100
Source: IDC India	

Five compelling reasons to implement an ERP system
<ul style="list-style-type: none"> Integrate financials with all other functions. Integrate customer order fulfillment information. Standardize and speed up core business processes—manufacturing, financial services—whatever be the case. Reduce inventory, non-performing assets—as the case may be. Standardize HR information.

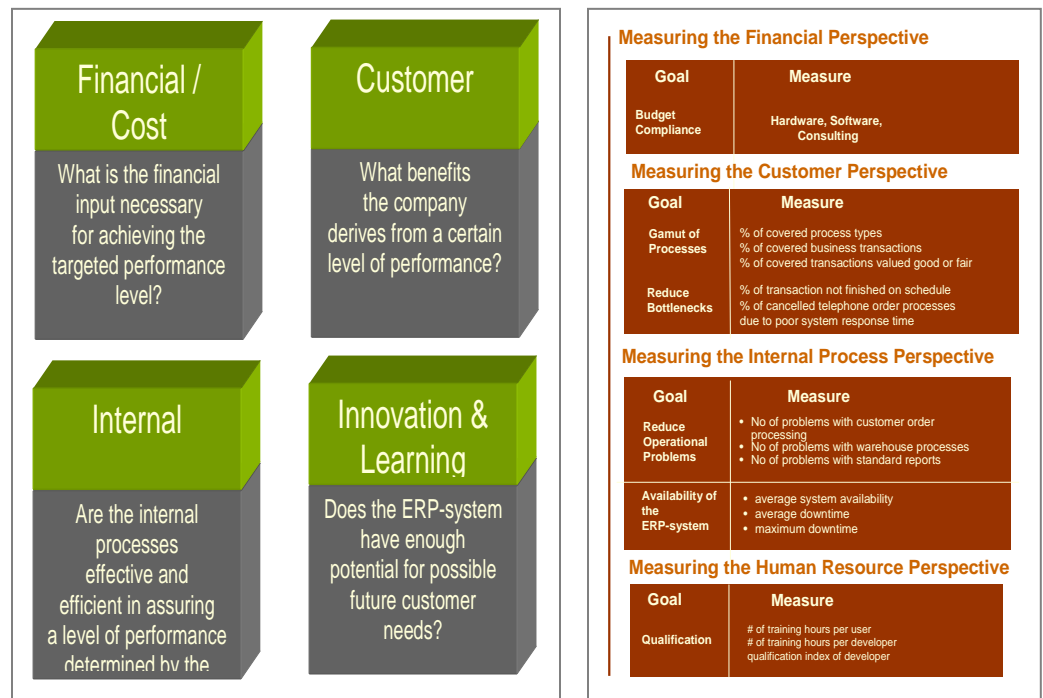
Thorns in the roses

ERP may be a panacea but a panacea after all needs to be administered with finesse and professionalism. The hurdles in the path of a successful ERP implementation in the Indian Mid Market context are:

- **Expectations from ERP:** There is a feeling that ERP is an intelligent wand that solves all business problems. The fact is that it is an application framework which has to be tuned to the organization's requirement and run by humans who make the decisions. On the flip side ERP is often classified with an off the shelf accounting package whereas the fact remains that an ERP is an integrated framework that addresses most of the organization's business functions.
- **Unstructured Processes:** A majority of the mid market segment organizations are closely held businesses where the business processes have evolved over years. Realigning of these business processes and streamlining of data to suite the ERP requirement is a major exercise where the participation of the clients is critical.
- **Commitment from Management:** Any ERP implementation is phased over a period of time. In quite a few cases it has been observed that there is a wane in the interest and commitment of the management during the implementation process. This result is cost and time overrun and in some cases the process gets nipped in the bud.
- **Cost Benefit Utopia:** A common expectation is to get the "skies for nothing". Although there have been efforts to optimize the total cost of ownership, the fact remains that value which one can expect is proportional to the investment. An imbalance in terms of trying to derive more can lead to skewed delivery – Quality suffers.

5. Key Performance Metrics of ERP Implementation

Investments in ERP implementation for organizations in the mid market segment is a significant decision. Hence the evaluation of an implementation and benefits accrued is a significant factor in the overall success of an implementation. Effectiveness of an ERP implementation can be somewhat gauged by Key Performance Metrics (KPIs) of business processes. KPIs are benchmarks with quantitative or qualitative values that help an organization assess the success and effectiveness of the processes that have been implemented in the ERP. However it may not be appropriate to expect significant improvement in these values immediately after the implementation. An organization needs to give itself the time to absorb and imbibe the changes brought about in by the ERP to realistically achieve the KPI targets. Examples of these metrics are as follows:

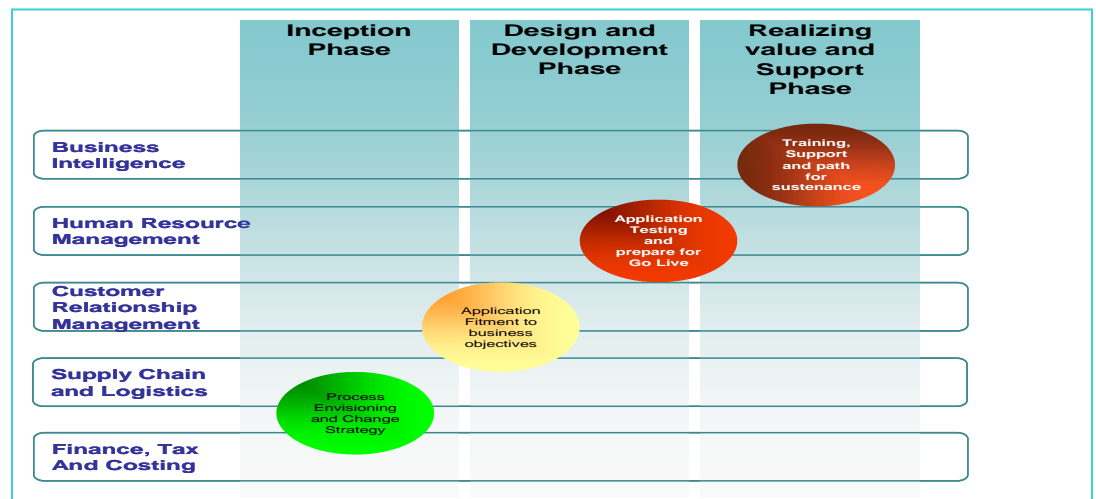


6. PricewaterhouseCoopers (PwC) Advisory Services to Entrepreneurs

PwC's realizes that entrepreneurs have great expectations for their companies because the business is more than simply a business – its personal.



PwC is providing guidance on organizational processes including financial and accounting systems, supply chain, human resource and tax matters encountered by entrepreneurs throughout the business lifecycle – from inception to growth, and maturity to transition. They provide effective solutions using local expertise and the strength of the PwC international network.



PwC India is strong player in providing advisory services in the Mid Market segment. Its service offerings cover IT Strategy Formulation, Process envisioning, ERP implementation, Business Intelligence, Knowledge Transfer, and Support. PwC India is an implementation partner of all major ERP application providers.

7. ERP and beyond

Business benefits aside, ERP gives an information system three important capabilities: consistency and reliability of data across the organization, streamlined transaction processing, and provides operations level reporting. These capabilities, basic and important as they are, ensure that companies are ready for specific solutions that enhance performance.

The areas that will supplement the basic ERP requirements are like supply chain management with electronic collaboration between supplier and customer, customer relationship management, business intelligence, product data management, complete product lifecycle management, inventory and warehouse management using RFID tools and the like. For these applications, ERP becomes the substratum, a kind of gateway to specialist functions. That is, ERP is a sine qua non for other applications.

In fact, the trend is that with basic enterprise resource planning being a given, ERP vendors are rushing to integrate most of these additional capabilities. Says Jindal: "Convergence of ERP, CRM and SCM modules is the order of the day. Also, SCM and CRM application providers are also expanding functionalities, beyond the services traditionally provided by ERP vendors."

Contacts

Amitava Sain

amitava.sain@in.pwc.com

Debasis Ghosh

debasis.ghosh@in.pwc.com

Rachna Nath

rachna.nath@in.pwc.com

PricewaterhouseCoopers (P) Ltd.

Plot Y14, Block EP,

Sector V, Salt Lake

Kolkata, India – 700091

Phone: +91 33 23579100

Fax: +91 33 23573395

www.pwc.com