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A good example of a company that has used ERP packages to reorganize their business processes is provided by the U.S. subsidiary of Nestle SA, a Swiss food conglomerate. Nestle USA was created in the late Eighties and early Nineties via acquisitions. In 2002 it included seven divisions which collectively sold such popular brands as Alpo, Baby Ruth, Carnation Instant Breakfast, Coffee-Mate, Nescafe, Nestle Toll House, PowerBar, Stouffer's Lean Cuisine, SweeTarts and Taster's Choice. The company employees some 16,000 employees and earned about \$8 billion in revenues.

In the mid-Nineties the various companies that make up Nestle SA were all operating as independent units. In 1997 a team studying the various company systems concluded that, collectively, the companies were paying 29 different prices for vanilla – which they all purchased from the same vendor. The study wasn't easy, since each company had a different number or name for vanilla, and purchased it via completely different processes. Just isolating vanilla and then determining a common unit price required a considerable effort.

In 1997, Nestle USA decided that it would standardize all of the major software systems in all of its divisions. A key stakeholder team was set up to manage the entire process. By March 1998, the team had its plan. It decided it would standardize on five SAP modules – purchasing, financials, sales and distribution, accounts payable and accounts receivable. In addition, the stakeholder team decided to implement Manugistics' supply chain module. The team considered SAP's supply chaining module, Advance Planner and Optimizer or APO, but it was brand new in 1997, and decided to go with the better known Manugistic's module that was specifically designed to work with SAP modules.

Before even beginning to implement SAP modules, people from the divisions were gathered and spent 18 months examining data names and agreeing on a common set of name. Vanilla, for example, would henceforth be code 1234 in every division.

Somewhere along the line, the project to install SAP modules also became a Y2K program. By moving to standard software that was guaranteed to be free of bugs associated with date problems that might occur when applications started dealing with dates subsequent to December 31, 1999, the company hoped to avoid any Y2K problems. Unfortunately, this placed a deadline on the entire implementation effort – it had to be done before January 1, 2000.

As the various SAP applications began to roll out to the divisions, the stakeholder team managing the entire effort began to get lots of unpleasant feedback. Jeri Dunn, the VP and CIO of Nestle USA, explained that in hindsight, they had completely underestimated the problems involved in changing division cultures or modifying established business processes. By the beginning of 2000, the rollout was in serious trouble. The workers didn't understand the new SAP modules and they didn't understand how the outputs they were now getting would help them do their jobs or manage the processes for which they were responsible.

It was at a major meeting in early 2000 that Dunn was given responsibility for the project. Among the other conclusions reached by this executive committee meeting, was the Y2K deadline would be ignored. Hence forth, they would figure out the implementation requirements for each SAP module and then let that specification guide their schedule. They decided that it was relatively easy to install SAP modules, but that it was very hard to change business processes and to win the acceptance of the people responsible for assuring those processes operated correctly. They also decided that much more care needed to be taken to determine just how the SAP modules would interact with the processes and applications that would remain in place.

At the same time that Dunn took over, a new director of Process Change has hired and a process manager (VP) for the supply chain was promoted to help Dunn on the remainder of the project. In most cases, the team now began to focus on modeling processes and defining process requirements and then creating a plan to install the SAP modules. Several installations were delayed for months or years to accommodate groups that were not prepared for the process changes required. As we go to press, the Nestle transition is coming to an end. The company spent approximately \$200 million on the transition. Dunn claims that the project has already paid for itself. The new planning processes, for example, make it possible to project Nestle USA-wide demand more accurately and to save significant inventory and redistribution costs. The VP for Nestle USA's supply chain, Dick Ramage estimates that supply chain improvements have accounted for a major portion of the \$325 million that Nestle has already saved as a result of the SAP installation.

Dunn says she's happy with the SAP applications and very happy that all of the companies are now using the same basic processes. Still, in an article on the transition in CIO magazine in May of 2002, Dunn claimed that if she had it to do over again, she'd "focus first on changing business processes and achieving universal buy-in, and then and only then on installing the software."

Nestle USA's use of ERP applications, and their problems are typical of most large companies that have elected to rely on ERP applications to drive major changes. The company embraces the ERP applications in hopes that they can organize and standardize their software applications and databases across departments and divisions. Most large companies have started on this path and found that it takes much longer and is more painful than they had hoped. Few have completed their ERP transitions. The problem lies in the fact that the ERP applications aren't a solution. They are a tool to use in changing business processes. This isn't something that IT can do by itself. The transition must be conceptualized as a business process transition and guided by business managers. The ERP applications must be installed as part of the overall business process redesign effort, not as an independent activity. Used in an appropriate manner, ERP applications offer a powerful tool to aid in business process redesign.

For further information on this case, check an article by Ben Worthen, "Nestle's ERP Odyssey" in *CIO magazine*, May 15, 2002. pg. 62-70.