

Taming the beast

Luxury fashion retailer OrotonGroup was struggling with the cost of SAP, the value it was providing and user satisfaction. But a renewed commitment to the system and some very focused projects have turned things around, as Freya Purnell discovers.

Background

OrotonGroup was founded in Sydney in 1938, and consists of two brands: Oroton, the luxury accessories brand which is now expanding internationally, and Ralph Lauren, for which it has held an international licence for Australia and New Zealand for over 20 years.

The group is listed on the ASX, and has around 80 stores across Australia, New Zealand, Singapore and Malaysia, with around 600 staff. It operates the full range of retail stores – including full price stores, factory outlets, concession stores within department stores, wholesale and an e-commerce site for Oroton.

The company's revenues have grown from just over \$100 million in 2006 to \$145 million in the 2010 financial year. Net profit after tax has grown from \$8 million in 2006 to \$23 million in 2010.

Larry Neimann, IT manager at OrotonGroup, says the company originally implemented SAP R/3 4.6C in late 2004.

"There were challenges with SAP in that implementation, it wasn't an easy go-live," Neimann says.

At the time, the group also owned Marcs, Morrissey and Aldo Shoes, but in 2006, the decision was made to divest those brands and return to the core brands of Oroton and Ralph Lauren.

In 2007, shortly after he joined the company, Neimann was given a mandate to review whether the group should continue to run SAP or use a different system.

Getting the right support

Also in 2007, OrotonGroup stopped supporting SAP in-house and instead outsourced the SAP environment to CIBER – resulting in a decrease in operating costs over a three-year period. Within the IT team at OrotonGroup, there are now no SAP or Basis experts.

This process wasn't without its teething problems – while initially all change requests were made by email, CIBER set



up a helpdesk system to process all requests through tickets, increasing visibility and productivity in the process.

"That's been really beneficial in trying to drive down some costs," Neimann says.

This move marked the beginning of a change in the way the company ran its SAP system.

Small changes to SAP are made directly via the CIBER helpdesk, while medium-sized projects, such as enhancing the group's system for replenishment, are undertaken by CIBER functional consultants.

Larger projects are run using a normal project methodology, with a project sponsor from within the business; a project charter outlining its scope, budget and the value it is expected to deliver; a detailed blueprint, which all team members are expected to review; and a steering committee, which includes Neimann, the project sponsor, project manager, a key member of staff from CIBER and a representative of SAP.

"Budget is key; we will remove non-essential functions and requirements from the blueprint to bring it in on budget," he says.

A key plank of OrotonGroup's IT strategy is running small focused project teams of around 5-10 people.

"There are a couple of benefits to this – you can make quick, clear decisions. When we get stuck and find some challenges, we take deep dives – sometimes a day, two days and sometimes two weeks, depending on how complex the issue is. If it is too difficult, we may just park it, continue to use our standard functionality, and go back to it when we have time to do it properly for the business," Neimann says.

He adds that the group's objective is to use SAP standard functionality as much as possible, and where non-standard functionality has been used, to return it to standard SAP functionality where appropriate.

"We don't necessarily understand a whole lot about the technical structure of SAP, but we do know that we are trying to use SAP while we grow our business, and



generally SAP's processes are very good," Neimann says. "So once we've worked through why SAP is doing things in a standard way, it often makes sense to us as well. That's not to say we don't do customisations, but most of the time we get back to SAP standard. This lends itself to a more efficient and cost-effective process."

Upgrading to ECC 6.0

With the OrotonGroup experiencing performance, support and usability issues, particularly with reporting, a decision had to be made about whether to continue investing in SAP, or to replace it with a different system.

In August 2007, the group went out to tender and spoke to a range of different organisations, including third-tier and second-tier ERP providers. The group also spoke with other retailers about their experience with other systems and with upgrading SAP.

"The reality was, as much as we wanted to look at some of the smaller providers, even at the point where it was a \$100 million business, we were too big for some of those systems, and they weren't going to work for us," Neimann says. "With some of the second tier systems, the costs would be huge – probably not a whole lot less than we had spent on SAP to date. There was a whole lot of risk in putting in a brand-new system with no guarantee that it

would be more successful than what we had done already."

Neimann says the group decided that given most of the SAP system was actually working quite well, that it would continue to invest in SAP and upgrade to ECC 6.0. However at the same time, there was also a commitment made to "decrease the cost of SAP within the business to what we thought was reasonable".

The upgrade was completed by SAP GDC India, and was purely a technical upgrade, with no new functionality introduced. At the same time, OrotonGroup also upgraded its database and entire hardware environment, virtualising part of it as well.

Apart from a dedicated project manager locally, all of the work was done offshore.

"We drove it pretty hard – we spoke to them every day, sometimes multiple times each day. We really needed to keep it on track and meet the deadlines we had set," Neimann says. "The result was great – we went live on time and on budget, in October 2008. That was critical as well, because you certainly don't want to get into November and December as a retailer doing an upgrade.

"Most importantly, the day we went live, the performance issues disappeared and a whole lot of the usability issues disappeared as well, and the reports start to work fine."

In fact the only issue with the upgrade was a problem with the scanners in the warehouse – but through some liaison with the company who originally did the work for OrotonGroup, the issue was resolved and the system worked better than ever.

While a small internal team worked on the upgrade, Neimann says almost everyone in the company was involved in testing the new system, and they went through multiple rounds of testing – sandpit, development, QA and production.

"The result was what we wanted, and that gave us the foundation to move forward with SAP," Neimann says.

Establishing an Asian hub

Also in 2007, the company decided to open a distribution centre (DC) in Hong Kong, as the local space utilisation was not efficient and from a supply chain perspective, the offshore location made sense, as merchandise for both brands is manufactured all over the world.

"We needed a location to do freight forwarding and consolidation, and it met our medium-term strategic objectives," Neimann says.

Fortunately the 3PL provider Oroton chose was using some of the same technology as it had run in its own warehouse, and they had experience using IDocs within SAP.

"It was one of the more complex projects we had tackled, but due to some of the synergies we were able to fairly easily interface into their warehouse management system, and they were able to interface back into the SAP side of things," Neimann says.



With configuration again performed by CIBER, the project was completed within three months.

“That project was on time, and on budget, and it gave us access to an Asian hub,” Neimann says.

Outsourcing distribution

In 2009, OrotonGroup moved to close its existing DC and outsource distribution entirely to a 3PL provider based in Melbourne.

“We did this project almost entirely in-house, as we happened to have a resource working with us at the time who had experience in the logistics area, and we used a chunk of what we had done with our Hong Kong DC,” Neimann says. “Again within three or four months, we had completed this whole project, closed the warehouse, moved all the goods, and had a new system up and running.”

Neimann says the key to such a fast turnaround was having a small internal team – only around 10 people on the project from beginning to end – and using CIBER resources where necessary.

Lessons learned

OrotonGroup has certainly learned what works in the course of this journey.

“In a fully outsourced environment, we found that when you start a new project with a new team, if they spend more time in the business sitting next to people who do the processes day in and day out, the projects run more smoothly,” Neimann says.

Ensuring the system has already been tested thoroughly by the time it reaches the user testing phase is important, as is the role of the project manager. While in the past Oroton has had a functional consultant who has acted as project manager as well, this structure doesn’t work so well when the project runs into problems.

“Ideally you want a project manager who is somewhat impartial and independent of the project, so they can actually feed through real information to the steering committee without feeling too emotionally involved and attached to the project,” Neimann says.

OrotonGroup’s IT environment

The OrotonGroup’s core business technologies include SAP ECC 6.0 using IS-Retail, with modules for FI/CO, MM, SD, WM, BW plus Business Connector and Solution Manager. Stores have their own Portal, where they can directly issue and receive goods and see reports on stock availability. The group uses Transacta as its point of sale system, ProCube for board reporting and budgeting, and the Maple Lake merchandise planning system.

Business benefits

By only taking on 3-4 month projects, Neimann says they have been able to demonstrate value to the business, and then gain support for more work on SAP.

“As projects are successful, then the business is happy to continue to fund the investment in those projects,” Neimann says. “There has been a substantial turnaround, from a lot of negativity about SAP, to now having a reliable system.”

Undertaking the upgrade to ECC 6.0 has given the company a stable platform to work from, while implementing new logistics processes has also been critically important for Oroton.

“This has helped to drive down costs from a supply chain perspective, allowed us to be a lot more nimble and dynamic, and enabled us to have an Asian hub, which was important.”

OrotonGroup has since opened two stores in Singapore and two stores in Malaysia, and because the DC was already based in Hong Kong, it made for an easier transition into those countries.

Perhaps most importantly, the group has been able to control its IT costs, even as it continues to grow.

“While the revenue has been increasing and profits have been increasing [for the group], the real IT costs have been decreasing quite steadily over time,” Neimann says.

OrotonGroup’s IT organisation has achieved these cost savings with SAP by managing change requests more rigorously, reducing the costs associated with running Basis and driving down project costs.

“There is no question that doing an SAP project is expensive, so you need to make sure you do the right things and at the right time for the business.” **SAP**