

# An analysis of nestle's erp odyssey essay



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Enterprise resource Planning (ERP) is any integrated cross-functional software that reengineers manufacturing, distribution, finance, human resources and other basic business processes of a company to improve its efficiency, agility and profitability. 1 On an initial view, an ERP system appears to be the cure for any company's issues.

The installation of such a system offers an organization the opportunity to restructure their procedures, to coordinate branches' systems in other geographic locations, unify information and inspire employees via granting them permission to company information. Now these chances exist at heightened costs financially. There are also implementation horrors and labor issues with which must be dealt with. A stellar example of a company that has dealt with all of these is Nestle.

Nestle SA is a world renowned multi-billion dollar profit earning company headquartered in Switzerland. Historically, each of its branches in different nations were allowed to operate as they please, as long as they adapted to their host country's business culture. Upon performing an internal check, management realized that the multitude of companies on foreign shores were immensely costly and severely inefficient particularly in the United States of America. This deficiency in standard commercial processes hindered Nestle from boosting productivity. Behind this discovery lay the reasons for inefficiency. The first was that Nestle couldn't leverage its global purchasing power for the raw materials used in its products, even though each production plant used the same worldwide suppliers.

This occurred because each company not only negotiated its own purchases and its own prices, but also made their own business decisions. The essence of this problem, stemmed from the autonomous decision making of the companies. For the resource vanilla, there existed twenty-nine (29) different prices and these prices were being all paid to the same vendor. In addition to that then recurring situation, it was worsened by the sad fact that vanilla was referred to by different titles by each company or branch.

Therefore, this made it severely difficult to conduct checks from plant to plant. The second reason was because many offices and shop floors were using antiquated computer software and obsolete computers. There existed PCs on employees' desktops that still used Windows 3. 1.

3 In addition to this cause was the most important truth that the company did not have an information technology hub or main server for all the overseas based companies computer systems. The corporate argument for having an ERP system was therefore understood for Nestle given their issues. The project that became BEST (Business Excellence through Systems Technology) was scheduled to run over a period of six years ending within the first quarter of 2003. This operation was budgeted at well over \$200 million and would implement a key five SAP modules: purchasing, financials, sales and distribution, accounts payable, and accounts receivable.

Throughout the implementation, Nestle USA made several large mistakes that almost doomed the project. When the project first began, a team of 50 top executives and 10 senior IT professionals were assembled to develop the set of best practices for all Nestle USA divisions. The goal was to develop

these proper practices for all of the functions of the company. Each function from production to sales were eventually forced to retire their old approaches and adopt the new best practice that had been developed. Concurrently, a technical team had been charged with the feat of implementing a common data structure throughout the company.

When the implementation had actually began in 1999 Nestle already encountered problems with their employees' acceptance of the system. Most of the resistance that was met by the project team had been traced back to the truth that none of the groups that were going to be directly affected by the new processes and systems were represented on the key stakeholders' team. This was only the beginning of Nestle USA's problems. By early 2000, the project had already turned into a fiasco.

Workers could not comprehend how to use the new system and did not comprehend the new work processes they were being coerced to accept. Divisional executives were just as perplexed as their subordinates as they were excluded from the planning and development of the new system and were reluctant to aid in rectifying the problem that had rapidly developed. The end result of this was that company morale dramatically fell and employee turnover had far skyrocketed. With the aftermath of the failure saw a new project manager assigned to restart the operation.

Gathered were nineteen key stakeholders and corporate executives at an offsite retreat to discuss and aid in the direction of the project. Out of this meeting came the revelation that they would need to redefine the criteria of the project and then shape the project timeline around the criteria as

opposed to shaping the timeline around a predetermined deadline. From that starting point, the project team was on track with the finish line in sight in the not too distant future. The team also began taking repeated surveys of the effect of the project on employees and how they were dealing with it. More meetings were held with the division heads and as a result of the information gathered in this way, they determined that manufacturing users were not ready for the many changes, and so the rollout of that package was delayed for six months. This immensely aided in getting the final stages in the project known so that the imminent completion could be met.

The company had made a statement that they had already saved \$325 million following the success of the project. <sup>2</sup> In addition to saving money, Nestle USA had also united as one organization. The issue of twenty-nine different brands of vanilla had been resolved and now there existed common databases within each factory where they refer to vanilla under the same title. They also used common processes that simplified operation procedures and allowed the centralization of functions such as developing training processes. Training is no longer customized for each production plant. Since each location followed the same processes, training materials only needed to be developed once.

Also, any Nestle USA employee could relocate to another plant and not have to adjust to local processes. There are for the most part four lessons that can be learnt from Nestle's experience. First, the right individuals need to be involved in the project from the beginning. It is simply impossible to redesign work processes without involving the people that actually do the work. The second lesson is to gain management's commitment.

Not securing top management support always results in an automatic project failure. Management commitment is often high at the beginning of projects but begins to wane as the project progresses. It is therefore vital to keep management interested, involved, and positioned behind the project. The third is to avoid heavy customization. It is both easy and tempting to customize ERP packages to fit your exact needs. Unfortunately excessive customization will backfire by lengthening the project timeline and by driving up costs in the future.

The fourth and final lesson in ERP implementations is not to underestimate the importance of training. Users need in-depth and continuous training and should even be involved with system testing if possible. In conclusion, ERP implementations are unlike any other system implementation that a company will ever have to experience. Often, as in the case of Nestle USA, organizations will encounter major setbacks and difficulties during the implementation yet still be able to salvage a successful project. The most important lesson of all is that plans must be flexible enough to change to overcome obstacles that appear during the project and organizations must do their homework prior to beginning any project. ERP implementations combine disparate data sources, re-engineer processes, and involve large numbers of users and locations.

It is nearly impossible to plan for every contingency in projects of this size. The difference between success and failure is an organization's ability to rally and work together during difficult times to reach an end goal that will eventually make everyone's job easier and the company more competitive.

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