

HOW TO ASSURE ERP SUCCESS:
TAKING OWNERSHIP
DELIVERS RESULTS FOR CAROUND

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How to Assure ERP Success: Taking Ownership Delivers Results for CarSound

By Steve Ragow, Chief Financial Officer, CarSound

Enterprise Resource Planning (ERP) products salespeople make a lot of promises, and to listen to them, you might think that simply installing their software on a server and paying their licensing fees is all that is required to realize measurable business benefits.

Nothing in business or life is that simple.

More often than not, companies that implement an ERP system and have trouble achieving rapid return on investment (ROI) may labor under this misconception, or at the very least may underestimate their own role in successful implementation and operation of their new enterprise software environment. Understanding how to take responsibility for proper implementation and truly taking ownership of an enterprise application as a crucial business asset will go a long way to getting the full value out of your information technology investment.

Tools, talent and learning curves

There are some technologies that operate very well without much human intervention. The programmable thermostat that controls the heating and air conditioning system in your home is one example of a very simple, independent system. But this system is responsible for monitoring and controlling only one numerical variable. When installed and programmed correctly, the thermostat and high-efficiency heating and cooling equipment can maintain a comfortable environment and reduce your home energy costs.

The enterprise application used to run a medium-sized business is hundreds of thousands of times more complicated. Dozens, hundreds or thousands of business processes are managed through this system using countless data streams from throughout your enterprise, and the business conditions under which the system is operated are constantly changing. Operating a business even with an ERP system in place requires intimate knowledge of your business model and processes.

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Your new ERP environment does not replace the need for thoughtful leadership, effective management and diligent operation. Rather, it is a tool that must be mastered in order to optimize and facilitate your business. Your enterprise application will deliver information that can aid in decision making, can standardize, streamline and even automate processes and even improve real-time communication internally and externally, with customers and suppliers. But the technology alone is useless. Consider that the finest racing yacht under optimal wind and water conditions will not ensure success for a team that has not mastered the technical skills necessary to trim the sails. In fact, a better-trained, more knowledgeable crew in a lesser sailboat will almost certainly out-race the novice crew in the state-of-the-art vessel. This is also the case when it comes to technology tools within your business setting. The technology will only perform as well as your knowledge, understanding and skill allow.

Your ERP software is only a tool. As a senior executive, board member or manager, you are ultimately responsible for conducting enough due diligence during the selection process to determine which is the right tool for you. This requires an understanding of how each vendor's enterprise application can be used to optimize your business processes. You are the one responsible for ensuring that the system is implemented and configured in such a way as to meet your specific strategic and operational needs. And you and your team are the ones responsible for learning the application's operations completely enough to maximize what the tool will do for you.

The heaviest burden in ensuring a return on your ERP investment rests with you. Yes – your vendor carries responsibilities as well. They must develop and implement an application robust and stable enough to meet your needs now and in the future. They must constantly invest in research and development so that 10 or even 15 years down the road you can add the functionality and technologies required by the changing demands placed on your business. Some vendors are more committed to making these investments than others, and some are more committed than others to your specific industry than their competitors – so you need to choose your technology partner carefully. But even after you choose that partner, you must take responsibility for fully understanding the tool you are implementing and using.

In many cases the vendor must also be prepared to manage the technical and logistical side of an implementation. But your participation and commitment to the implementation process will be crucial. During implementation you must fully learn

the application, and engage in a thorough analysis of how the application will fit into your business processes. The analogy to sailboat racing is very applicable. The more you know, the more you take ownership of your ERP environment, the more you are in a position to achieve real business results that allow you to pull ahead of your competition.

Your company is unique, and faces unique challenges, but I think our story here at CarSound – the marketer of Magnaflow aftermarket

exhaust products – is something that may help you

understand the challenges of implementation and allow you to get the most out of ERP and other enterprise applications.

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What we found is that there are two best practices that, while challenging to follow, can ensure your successful implementation and operation of any enterprise application. First of all, senior management at your company must have hands-on involvement in the application vendor selection process and must remain involved in implementation. Second of all, during and long after implementation, a serious effort is necessary to assault the learning curve involved in truly mastering the application.

Top-down involvement

In over 30 years in the software industry prior to joining CarSound, I had seen the same situation play out time after time, and company after company. Corporate management would make the decision to implement an enterprise software solution, and would develop a list of deliverables and objectives for this project. Then they would form a committee – a committee that did not include any members of the senior management team – to select the vendor and implement the solution. Or in some cases, management might participate in the vendor selection process. But after the vendor was chosen and management communicated their objectives and agenda to the selected vendor, an implementation team that lacked management involvement would take over. Without managerial oversight and the corporate-wide perspective that only senior management can offer, the scope and direction of the project would wander away from what was intended. The line-level and departmental managers on the implementation team would have their own narrower objectives and priorities,

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and would redirect the vendor to implement a solution that serves their limited needs rather than the strategic needs of the enterprise.

The solution to this problem is simple, but requires a corporate culture where senior management is not afraid to get their hands dirty. Senior management must be represented and fully participate not only in vendor selection, but in the implementation process. That means that senior management must be available for meetings with an internal committee and with the vendor, and must also be willing and able to share details and provide from the company's existing management information systems necessary to drive the implementation process.

In too many cases, corporate management feels they are involved in an enterprise selection and implementation process because they are writing a check. Writing a check does not constitute involvement.

Take ownership of the solution

Implementation is a crucial time not only for communication of objectives but for mapping and re-engineering business processes. Let's return for a moment to the sailboat racing analogy. Imagine having the opportunity for your yacht racing team to meet with the team constructing your racing vessel. There are things about the way you and your crew operate that might impact how that craft is configured, and conversely there are design elements of the craft that might impact the way you crew the sailboat.

Configuring and implementing an enterprise application involves many more variables than designing, building and crewing a racing yacht. During the implementation process, it will be necessary to audit and evaluate each of your key business processes. In some cases, it will be necessary to configure the software application you have selected to conform to your existing processes. In other cases, functionality contained in the application will offer more efficient ways of doing things than do your existing processes, and the way you do things needs to change. Management needs to be involved as the processes change in order to ensure that the solution that is implemented achieves the business goals they have in mind. Moreover, as processes are re-engineered for maximum efficiency, management's involvement will communicate a firm mandate that the new processes need to be followed. Without the oversight and ongoing involvement of senior executives at this critical point, the beneficial process changes you are investing in may not be followed by the system's end

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users. This negates your investment in process re-engineering and an enterprise application.

Implementation is also the best and most important time to learn the inner workings of this new tool that will be essential to how you run your business and compete in the market. Well before you go live on a new solution, it is critical that departmental managers and their staffs have a thorough understanding of exactly how they will execute their day-to-day responsibilities after transition off a legacy system. Many individuals throughout the organization also need to delve even deeper into the application to become super-user experts relied upon by their peers. Your application vendor can train your core staff who can in turn train others, but really great students go beyond the syllabus, learning more to anticipate future needs. Long after go-live, your managers will need to be able to solve problems by using application features that have not yet been leveraged. A thorough understanding of the way the application works will help them tweak and configure the application on the fly to meet your changing needs – without spending money on consultants. When it comes to enterprise software, knowledge is one of the most expensive commodities. Growing your own internal crop of experts will reduce the consulting costs that can pile up as you pay outside resources to teach you things about and solve problems in your new environment.

The CarSound story

CarSound has been around for more than 25 years, and is a leading manufacturer of aftermarket automotive exhaust products. Under the CarSound name, we market a line of premium catalytic converters, and under the Magnaflow name, we sell a very popular line of high-performance exhaust components, specifically Dyno-tuned cat-back performance exhaust systems, mufflers and related components. By 2003 the company had built a strong business serving smaller auto parts suppliers and custom shops. But despite strong interest from major automotive retailers like Pep Boys, NAPA, AutoZone and others, management knew that we didn't have the organizational capacity to properly serve the larger retail chains.

What was holding us back? We had both capacity problems and planning problems that needed to be fixed. We did not have enough demand planning capabilities to know what products to make in what quantities. We would have wound up making too much of the wrong product and wind up sitting on stagnant inventory or not make enough of a product to meet our incoming orders.

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Putting items on backorder was something we needed to avoid because the larger retailers have strict fill rate and delivery requirements. So not only were their typical orders huge given our capacity at the time, to the point that we did not have the stock on hand to fill them, many of these retailers require a 95 percent fill rate on their orders. Back in 2003, we were averaging a 75 percent to 80 percent fill rate on orders and backordering the rest of the requested stock.

Our management team decided we would not have been able to address the larger retail customers given their fill rate and time to deliver requirements, and if we would have initiated a business relationship with them at that point, we would disappoint them, wind up with a bad vendor rating and lose their business. At best, we would work so hard to satisfy the major retailers that we would neglect CarSound's existing customers to the point where we lost that business. Neither outcome was acceptable. We needed to make changes to the business to support our ability to grow.

It was at that point that we brought in a consultant to help us re-engineer our business and select an enterprise application that would facilitate our process improvements, providing the increased visibility necessary for adequate forecasting. The objective view of the consultant was invaluable, particularly since he had seen the forecasting and logistics processes of a wide variety of companies. This step in the process was a critical factor in our success as we really tore our company apart and had an excellent idea of exactly how we wanted to operate as a company. We then set about selecting an application that would best help us operate in that way. We knew that we would have to re-examine each of our new processes after we selected our software package. We would have to determine how each of our processes will be supported by the software. We made the commitment going into the selection that we did not want to do custom modifications to a software application. Instead, we'll modify our processes just enough to avoid the expense and problems that come with modifying the software – but still do everything as closely as possible to how we had planned during process re-engineering.

We selected IFS Applications because it met our needs more closely than other vendors and seemed to be more flexible. Everyone was impressed with the querying functionality, and that is something that, it turns, out, became even more important as we continued to learn and use the product. We implemented what most people would consider a lot of functionality all at once, including IFS Applications for finance, manufacturing and distribution along with Clipper Ship (for parcel ship-

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ments) and Scan Works (for scanning picks and shipment packing). This was however a small segment of the functionality we would eventually roll out.

Management had brought in a consultant to help us with implementation, but after implementation was done, we were on our own. That was a very deliberate decision on the part of our management structure. It is often a lot easier for people to throw money at their ignorance rather than learn what needs to be learned.

We took eight months to implement the system and to refine our new business processes – and then we went live. The go-live was a success, and that I think was due to our very strong up-front review of our business processes. But at that point, we were really only using 60 percent of the functionality that we had implemented. That was mostly because we didn't understand everything. But as time went on, our understanding of the applications increased and so did the number of things we could do within those finance, manufacturing and distribution tools. The important thing is that we learned and continued to grow our understanding of what our

new enterprise application could do for us, and we did it on our own. Management had brought in a consultant to help us with implementation, but after implementation was done, we were on our own. That was a very deliberate decision on the part of our management structure. It is often a lot easier for people to throw money at their ignorance rather than learn what needs to be learned. We made a conscious choice to avoid that dynamic, but it also helped that we had a very strong IT staff and managers who were willing to immerse themselves in the application.

As we got a better handle on our business in preparation for entering the major retail chains, we rented some warehouse space until our own warehouse was constructed so we would have room for all of the items we needed to keep in inventory. Before our process re-engineering and our implementation, we would not have been able to forecast with enough confidence to invest in either a warehouse or a large inventory.

When we went live on IFS Applications in 2004, we had enough of an understanding of our enterprise application to run our business. But as time went on, our IT and management staffs continued to delve into the functionality and really get into what it could do. We developed a number of quick queries so that even before we implemented any business performance measurement functionality, we could pull data to drive our metrics program.

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Using simple queries, we can easily pull decision-type data when needed for any operational area. However, the company also heavily relies on the regular production of metrics to guide its performance and strategic moves. Some of the areas we regularly produce metrics on are:

- Production Rates vs. Labor Cost for our major product lines,
- Quality measurements thru RMA Warranty analysis by customer and reason codes,
- Comparative reporting on order volumes, sales volume, billing volumes, product quantities and credits,
- Customer volume growth and percentage of business mix, and
- Parcel Shipping growth and analysis.

We really don't include metric reporting on areas like profit or revenue for the company or product lines. We believe that if we take care of the details outlined above, profit and revenue will take care of themselves – and they have. In the last few years we have grown from shipping 40 parcel packages a day to around 200 per day. We have doubled the number of orders we handle and doubled our gross revenue as well. During that time, due to the efficiencies we have achieved, we have not had to hire additional staff to handle the increased volume.

Once we felt we had really mastered and were beginning to properly exploit the functionality we had implemented in our first phase, it was time for us to expand our system to the next level. In 2005, we implemented additional functionality in the areas of B2B and data capture from robotic machines. We also started to expand into EDI processing.

Later in 2006, we expanded functionality for electronic data interchange (EDI) and added electronic conversion of faxes to orders, expanded the uses of the various modules and started the upgrade to the latest version of IFS Applications. At this point we also began planning to expand into additional areas of Human Resources. When we needed it, we got additional training for these new functional modules. But first we tried to figure them out by ourselves. We determined that if we can learn something on our own, then we really know it and understand it. If there is some reason that we can't learn, then we can get the training. But self-guided learning, I feel, forces you to take ownership for an application in a way that more passive learning with help from trainers and consultants does not.

Three key ideas

I hope this account of our experience at CarSound is helpful to you. In parting, I'd like to leave you with three important thoughts that may stay with you during your own enterprise software selection and implementation process.

1. The mandate has to come from the top. Senior management must drive the enterprise application vendor and selection process. That is the only way to ensure that the strategic needs of the organization are met and maximize acceptance and adoption of the new system. Here at CarSound, one critical factor in our success was the fact that the owner got behind our implementation project. He realized that over the years the company had made investments in information technology initiatives that did not pay off, and knew that if management did not take ownership and accept responsibility for the process this time, he could expect the same results.

2. Learn the product inside and out, backwards and forwards. Too many companies miss out on the real benefits of their enterprise software because they do not know how to operate the tool beyond the bare minimum required by the day-to-day activities of line managers. But the beauty of a top-tier enterprise application is that it can adapt to your business and satisfy needs you had not anticipated during implementation. But in order to harness that functionality, you need to know the product so that when a new situation arises, you know where the data you are looking for can be found and how you can configure a solution to your needs.

3. Absorb what you can and then move on. Implementing an enterprise application in phases to meet your needs in priority order is a smart thing to do. Our initial implementation was limited in scope – but still gave us more than enough to digest and learn for quite some time. If we had taken on any more to start out with, we would have been overwhelmed and not learned as much about IFS Applications' core functionality. The solution: take a small portion, finish the food on your plate and then move on.

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Steve Ragow has been CarSound's Chief Financial Officer since 2003. Prior to joining the company, he had accumulated almost 40 years of experience in public accounting, business consulting and enterprise software sales and implementation management. Ragow holds a B.S. degree in business and an M.B.A. in marketing, both from the University of Florida. He resides in Redondo Beach, Cal. with his wife and enjoys his four children and 14 grandchildren. He also loves sports.

About CarSound and Magnaflow

MagnaFlow Performance Exhaust is part of CarSound Inc., a company established 25 years ago. While CarSound focuses on premium catalytic converter products, MagnaFlow focuses on performance exhaust components, specifically dyno-tuned cat-back performance exhaust systems, mufflers and related components. The company is based in Rancho Santa Margarita, California, where all of its products are manufactured, but has distribution and sales offices in the UK, Germany and Italy. The company's spokespersons include Mario Andretti, Boyd Coddington and Ivan IronMan Stewart.

For more information, go to www.magnaflow.com

About IFS

IFS, the global enterprise applications company, provides solutions that enable organizations to respond quickly to market changes, allowing resources to be used in a more agile way to achieve better business performance and competitive advantage.

IFS was founded in 1983 and now has 2,600 employees worldwide. IFS has pioneered component-based enterprise resources planning (ERP) software with IFS Applications™, now in its seventh generation. IFS' component architecture provides solutions that are easier to implement, run, and upgrade. IFS Applications is available in 54 countries, in 20 languages.

IFS Applications provides extended ERP functionality, including supply chain management (SCM); enterprise asset management (EAM); maintenance, repair, and overhaul (MRO); product lifecycle management (PLM); customer relationship management (CRM); and corporate performance management (CPM) capabilities.

IFS has over 500,000 users across seven key vertical sectors: aerospace & defense, automotive, high-tech, industrial manufacturing, process industries, construction & facilities management, and utilities & telecom. IFS also provides a cross-industry solution for retail & wholesale distribution.

More details can be found at www.ifsworld.com. For further information e-mail info@IFSWORLD.com

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